Great Expectations: Corporate Social Responsibility and the Extractive Industries

by

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Abstract

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Exploring two hotly contested issues, corporate social responsibility (CSR) and the extractive industries, this report will demonstrate to a general reading audience the necessity of CSR as a business practice. The report finds that, given pressures from globalization and stakeholders, CSR is no longer an optional practice in the extractive industries but a business imperative. In general, why is CSR an important practice for businesses to adopt? In the extractive industries, what distinguishing CSR issues do they face, and how is CSR being propelled forwards in these industries? This report explores these questions and offers recommendations for policymakers and extractive companies on how to ensure CSR is implemented in a way that meets society's great expectations.

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Executive Summary

Corporate social responsibility (CSR) and the societal impacts of extractive industries are two contentious issues in business and politics. First, this report informs readers - supporters and skeptics alike - about CSR's legitimacy as a business practice by explaining the important role stakeholders have in influencing its adoption, how it works in practice and the competitive advantages gained by those who implement it correctly. Second, the report explores why extractive companies should adopt CSR, if they have not already, by looking at the social, environmental and economic impacts; the business case for CSR in these industries; the industry leaders setting the bar for CSR practices; the importance of monitoring and reporting; and the global conditions driving companies to implement CSR.

As the bridge between developed and emerging markets, the extractive industries' leaders recognize that their role in society is much broader today than it was just two decades ago and are increasingly committed to socially responsible practices. Without CSR, they risk (1) losing their ability to operate in resource-rich communities and (2) incurring an enormous loss of financial assets, competitive advantage, productivity, human capital and brand value.

Although failures and short-comings in implementing CSR have occurred, these temporary setbacks are to be expected given the relative infancy of CSR, the need for greater standardized reporting on impacts and the on-going developments of for policy frameworks and international guidance standards. Throughout the report, textboxes highlight important anecdotal evidence of extractive companies and resource-rich countries that should not be overlooked. The collaboration of perseverant, strategic-thinking visionaries from companies, civil society and the public sector are necessary for CSR to have the positive impacts on society that stakeholders have come to expect.

Introduction

After thorough research, numerous conversations with critics, skeptics, supporters and practitioners alike, this report finds that CSR in the extractive industries is no longer an optional initiative. Why has it become an imperative for extractive industry leaders to adopt CSR? Business and society today are not the same as they were a decade or two ago. A confluence of factors, including stakeholder pressures, the forces of globalization, scarcity of resources, drive for innovation, emergence of developing markets and, arguably, countless other global trends, have taken CSR off the *a la carte* menu for these industry leaders.

Like many industries, oil, gas (gas to a lesser extent than oil[i]) and mining have the ability to minimize environmental footprints and to improve the lives of their workers and the communities where they operate; but, unlike many industries, they also have the ability to make enormously positive impacts in developing countries. Given the greater ease in monitoring and reporting on environmental issues and the on-going challenge of measuring the complexities of inter-related social issues, this report will explore the *social* responsibility issues of CSR more than the environmental ones.

Whether or not they impact developing countries positively depends on a variety of factors, mainly centering around companies' engagement with stakeholders and their internalization of CSR values. The report demonstrates that, in order to maintain their social licenses to operate, extractive companies must effectively listen to and cooperate with government agencies, civil society organizations, employees, value chains, customers, shareholders and the communities where they operate. Meanwhile, responding to stakeholder demands can affect long-lasting, positive change in emerging markets. Additionally, they must internalize the CSR expectations of key stakeholders in their corporate values and ensure that management and operations act in accordance with CSR goals.

This report concludes that CSR has become an imperative for the extractive industries due to: (1) the impact of globalization, which has created larger networks of informed stakeholders who are increasingly conscientious about how businesses impact human beings and the environment; (2) the increased operational risks for extractive companies due to the greater amount of global investment in projects in remote and underdeveloped regions; (3) the competitive advantages and financial rewards that come from innovative problem-solving (which can have reciprocal benefits for the regions where they operate).

After three years of intensive study, the World Bank's Extractive Industries Review (2003) found that extractive companies, with the cooperation of developing countries' governments, have significant potential to contribute to poverty alleviation and sustainable development. The "do-gooders" at the World Bank aren't the only ones recognizing the impact that extractive investment and projects have in developing countries. In its 2008 annual sustainability report, BHP Billiton's CEO executive summary said:

> Over the past year, a number of emerging economies experienced strong growth. By supplying the building blocks for that growth, our industry has contributed to higher living standards and greater opportunities for millions of people…. Our Company can make a real contribution to sustainable development and poverty reduction in the world, and we need to work hard to realize this potential. We truly are charged with resourcing the future – in a responsible way.[ii]

Clearly recognizing its "resourceful" and important role it has in addressing global problems, BHP Billiton is an industry leader that provides an example for other smaller players or industry "sustainability laggards" to follow. Examples of such leadership in oil, gas and mining companies abound. This report will explore a selection of those examples, after first informing readers about CSR and its importance to businesses in general (*Chapter 1)* and then elaborating on the role of CSR in extractive industries, with a special focus on the global drivers of CSR and the role extractives play in international development (*Chapter 2)*. The report will conclude with policy developments and recommendations for the public and private sectors (*Chapter 3)*, illustrating, again, industry and government leadership in these areas.

Section 1: *Extractive Industries and CSR*

THE EXTRACTIVE INDUSTRIES

Extractive industries include all companies that extract natural resources from the earth; natural resources include minerals, trees, natural gas and oil. For the purposes of this report, only oil, gas and mining industries will be explored. According to *Fortune's* most recent G250 (the list of the world's 250 largest companies), 27 of the companies were from the oil, gas and mining industries. In other words, mining, oil and gas comprised over 10% of the world's corporate titans in 2007.[iii] Given the nature of producing oil and gas, these two types of extraction are usually grouped together. The characteristics of the resource deposits, e.g. depth of extraction, risk of exposure to harmful substances, etc…, can play a significant role in determining how a company approaches CSR issues. The oil and gas industry recognizes the reduction of continuous flaring of natural gas (during either oil or gas production) as the simplest and most cost efficient way to reduce greenhouse gas (GHG) emissions. Additionally, burning gas for fuel results in a about 50% less carbon emissions relative to oil.[iv] Therefore, due to the nature of extraction, oil and mining tend to face more CSR-related challenges; therefore, when presenting anecdotal evidence, the report will rely more heavily on oil and mining, with an even greater emphasis on the latter, as its extraction activities are exclusively land-based, which places it in more direct contact with local communities.

WHAT CSR MEANS TO EXTRACTIVES

The trend in extractive companies is to use the all-encompassing term "sustainability" to describe CSR or CSR-related initiatives. Previously, "environment, health and safety" (EHS) had been the more popular term for describing companies' focus on social and environmental issues. A perusal of mining and oil and gas companies' websites shows that CSR is not a popular term; but, that it is, in fact, much in practice. The term sustainability differs from CSR in that it does not imply responsibility, transparency and ethics, all of which are inherent to CSR. [v] Nevertheless, sustainability and EHS are used in the same *spirit* as CSR, which could be described as corporate commitment to ensuring business activities at least do not have negative impacts on society and the environment.

INDUSTRY LEADERSHIP IN CSR / SUSTAINABILITY

Goldman Sachs, IBM, KPMG and Sustainability Asset Management (SAM), among other highly regarded organizations, conduct global CSR surveys or sustainability analyses of the world's largest companies.

Examining the policies and practices of large companies is important because (1) these companies have more stakeholders and, typically, (2) serve as international leaders within their respective industries. This level of impact with stakeholders and the heightened visibility within their own industries make them important players to watch, as they have the ability to raise the bar for industry laggards.

As with many other industries, extractives are well-aware of the positive and/or negative environmental, social and economic impacts that their operations can have. A variety of factors affect companies' decisions about what CSR activities to undertake, including: the geographical region where they work, the types of resources extracted, the size of the company, the human and financial resources available to the company, the value of the brand name, etc... BHP Billiton (Ltd and Plc), (one of two corporate conglomerates to receive the Sustainability Asset Management's (SAM) Gold Class ranking in 2007) stated in its 2008 sustainability report that its key operational challenges are: "eliminating fatal risks, occupational and community health, greenhouse gas emissions, access to and management of resources, sustainable community development and [proper mine site]closure."[vi] Sometimes, companies refer to these types of issues as environmental-social-governance (ESG), the latter of which refers to how the company governs itself. A list of the major ESG impacts can be found in Table 1.

Table 1: Impacts of Extractive Companies

Environment	**Social**	**Economic / Political (Governance)**
Climate change	Safety of employees and communities	Supply chains
Waste	Health of employees and communities (e.g. HIV/AIDS reduction, drug and alcohol abuse prevention, etc.)	Transparency and accountability
Water	Employee talent attraction and retention	Ethical behavior
Biodiversity	Rule of law / Human rights	Global voluntary standards
Indigenous land rights (also a social aspect)	Community economic and social development	Sustainability/CSR monitoring and reporting

Contents in the table do not represent an exhaustive list but rather a summary of the major impacts.
Source: Mary Beth Snodgrass. *A similar table can be found in:* Clarissa Lins and Elizabeth Horowitz, "Sustainability in the Mining Sector," *Brazilian Foundation for Sustainable Development* (July 2007): 22, http://www.fbds.org.br/IMG /pdf/doc-295.pdf (accessed July 10, 2009).

As discussed, companies each have their own unique understanding or of what their challenges are and how they envision their CSR/sustainability roles. For example, BP, an oil and gas company held in high regard within the industry for its quality sustainability reporting,[vii] defines its own sustainability as:

> the capacity to endure as a group: by renewing assets; creating and delivering better products and services that meet the evolving needs of society; attracting successive generations of employees; contributing to a sustainable environment; and retaining the trust and support of our customers, shareholders and the communities in which we operate.[viii]

The textbox case study, *Stakeholder Engagement at Royal Dutch/Shell Leads to Significant Corporate Changes*, shows how Shell learned the hard way about the importance of including societal expectations in its decision-making processes. Also explaining extractive industries' cognizance of their role in society, BHP Billiton states:

> The resources industry has a significant socio-economic impact. At national, regional and local levels, we share responsibility with host governments, local suppliers, contractors and employees for ensuring that wealth generated from natural resources helps to drive sustainable economic development and poverty reduction. Our aim is to help provide a safe, ethical, transparent and fair framework for employment, production and sharing of the economic benefits that flow from our presence.[ix]

Social Impacts

Extractive companies' social impacts are those that affect stakeholders. A stakeholder is any person or organization affected by or able to affect a company.[x] As the International Standard Organization's stakeholder diagram (Figure 1) shows, the actors most directly affected by corporate activities are consumers, local communities, society, workers and value chain actors; all of these groups will be explored individually in this section.

Today, stakeholders have unprecedented power over corporations' ability to make profits, power which traditionally lay in the hands of shareholders. Extractive industries, in particular, are increasingly responsive to stakeholders' expectations *in order* to serve

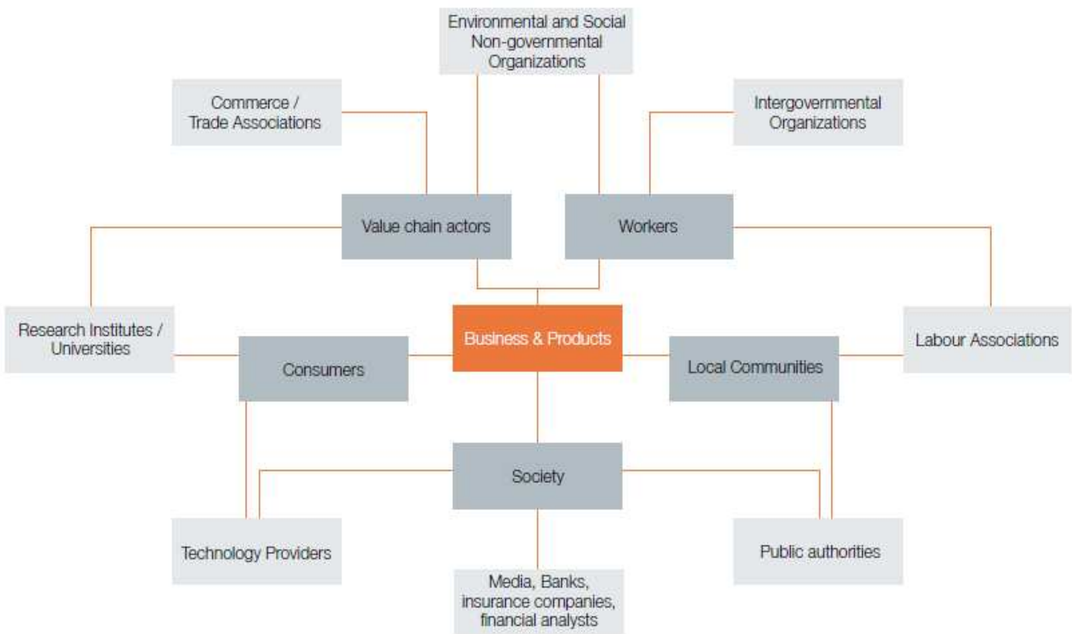
Stakeholder Engagement at Royal Dutch/Shell Leads to Significant Corporate Changes

Following a long period of heavy, international public scrutiny for its questionable impacts on the environment and society in Nigeria, in 1996 Shell initiated worldwide stakeholder engagement meetings. Over a period of six months in 14 countries, Shell invited external experts to meet with senior managers. One of the attendees, Phil Watts, who was the former chief executive in Nigeria during the difficult period of the early 1990s, found personal interaction with external stakeholders incredibly profound and eye-opening. The outsiders' knowledge of the Shell's societal impacts far exceeded Shell's own understanding and was far more impressionable in person than in publications. The meetings led Shell to conclude that it was out of touch with society's expectations in critical areas, largely because society's expectations had changed while Shell's had not. In response, Shell started new initiatives, including reporting on non-financial information as well as adding on a social accountability team. A founding member of that team, Mark Wade, commented:

"**[Societal] expectations are out there, and if you fall short, you can lose your license to operate**."

Sources: (1) Lynn Sharp Paine (HBS) and Mihnea Moldoveanu (University of Toronto), "Royal Dutch/Shell in Transition (A)," *Harvard Business School*, Case 9-300-039 (Boston: Harvard Business School Publishing, October 4, 1999): 1, 6. (2) Lynn Sharp Paine (HBS), "Royal Dutch/Shell in Transition (B)," *Harvard Business School*, Case 9-300-040 (Boston: Harvard Business School Publishing, October 25, 1999): 1.

Figure 1: Stakeholder Diagram



Note: Figure includes non-financial actors only; shareholders not shown.
Source: United Nations Environment Program.,"Hub and Spoke Stakeholder Diagram," *Guidelines for Social Life Cycle Assessment of Products* (2009): 26, http://lcinitiative.unep.fr/default.asp?site=lcinit&page_id =A8992620-AAAD-4B81-9BAC-A72AEA281CB9 (accessed July 8, 2009).

shareholders' financial interests.[xi] A theory that explains why key stakeholders exert this kind of power over these organizations is the Kew Garden Principle. It holds that an organization is more likely to respond to outsiders' needs depending on: (1) its proximity to the problem (2) the urgency of the problem (3) the organizations capability for dealing with the problem and (4) the likelihood that others will respond or not.[xii]

Using the Kew Gardens Principle, one could determine that the most influential stakeholders for extractive companies are consumers, workers and local communities.[1] Through stakeholder engagement (see Figure 3), organizations can open an effective dialogue with key stakeholders either to proactively incorporate their concerns into

[1] In order to identify the main stakeholders across highly variable industries, the author broadly identifies these groups, fully aware that specific operational characteristics can change the composition of the main stakeholder group.

corporate decision-making or to avoid or mitigate potential operational or reputational harm.

Consumers

Extractive industry consumers are large organizations or governments. The size of the consumers, as well as their purchases, affords them considerable influence in determining the direction of the companies. Given the dramatic growth in the emerging BRIC (Brazil, India, Russia and China) economies, demand for base metal and energy resources has grown dramatically. In particular, China is the main driver for base metal and has played a large role in the increasing demand for minerals. China is the largest single country consumer of iron ore (41%), zinc (27%), aluminum (22%), copper (23%), nickel (15%) and steel (33%). Steadily rising consumption, spurred by emerging markets, coupled with the decreasing availability of large, quality deposits, has pressured global extractive companies into expanding into previously unexplored, under-developed regions.[xiii]

Workers

Today many companies recognize that their employees are among their most valuable assets. Sometimes, however, in the quest for quick profit and equity, companies focus too singularly on quarterly reports instead of long-term sustainability. In light of the recent financial crisis, companies that had previously utilized more short-term decision-making processes are being more strategic about their talent acquisition and retention. While some extractive companies could be counted in this group, for the majority, short-sighted planning is not a luxury most businesses can afford, as will be discussed in further detail later. Healthy, long-term relationships with skilled workers is essential for companies that want to maintain or improve their productivity, financial bottom-lines and employee attraction and retention rates.

In addition to new employment opportunities, the economic argument for bringing an extractive company into a community is that it will provide growth opportunities for local businesses. Given the sometimes precarious socio-political conditions or long-standing traditional cultural norms, workforce-supplying communities may require additional assurances or assistance. Western assumptions about the positive impact that jobs and higher wages have on community well-being may not apply, particularly when large multinationals enter indigenous communities that operate under non-market social and cultural systems.[xiv]

> ***"[E]economic development per se is not the goal of human endeavor: the goal is human development and well-being. Economic activities and social relations are both means to this higher-order goal…."***
>
> *Source:* Sharman Haley and James Magdanz, "The impact of resource development on social ties," *Earth Matters: Indigenous Peoples, the Extractive Industries and Corporate Social Responsibility*, ed. Ciaran O'Faircheallaigh and Saleem Ali, (Sheffield, UK: Greenleaf Publishing, 2008): 29.

Employee engagement is effective for ensuring high rates of employee retention and reducing the costs of new hire training, even when employees come from precarious or tradition-bound community environments. An example of a missed opportunity for this type of engagement occurred over a decade ago at a uranium mining site in North Saskatchewan. The site had varying degrees of public support (ranging from "guarded" to "strong") and turnover rates of about 67% throughout the life of the mine. The mining company's profit margins suffered from high expenditure on training, staffing and safety requirements.[xv] With a more robust process of stakeholder engagement (see Appendix A for a diagram explaining this process) the company could have ensured both higher retention rates and greater community satisfaction, which also would have helped decrease turnover rates.

For Indigenous Communities: Is Employment an Opportunity for Development or Social Discontent?

Employment opportunities for members of the Inupiat communities of Arctic Alaska come primarily from oil and gas industry tax revenues and secondly from mining, as the region has the world's largest zinc and lead mines. Despite the opportunities, unemployment remains high, and household incomes remain low, contributing to high levels of poverty. In 2007, 90% of those surveyed said they were satisfied with their lives. Life satisfaction came mainly from family ties, social support networks, income and employment, subsistence activities and local control of resources, respectively. Even though 83% of those surveyed said unemployment was the area's biggest problem, many unemployed chose to stay in their small communities, claiming subsistence and social relationships were higher priorities than achieving higher (cash-based) standards of living elsewhere.± "The traditional [Inupiat] economy is based on household production and kinship-based, sharing networks that create strong social ties and cultivate trust. The market economy is based on individual, wage labor and impersonal and often transient exchange relationships… Layard [(2005)]¥ finds that short-term commitments and linking monetary rewards to individual performance both corrode trust and loyalties and create unhappiness."

Source: Sharman Haley and James Magdanz, "The impact of resource development on social ties," Earth Matters: Indigenous Peoples, the Extractive Industries and Corporate Social Responsibility. Ed. Ciaran O'Faircheallaigh and Saleem Ali. (Sheffield, UK: Greenleaf Publishing, 2008): 25, 32.

.± B. Poppel, *et. al.*, *SiLCA Results* (Anchorage, AK: University of Alaska Anchorage, Institute of Social and Economic Research, 2007) www.arcticlivingconditions.org.

¥ R. Layard. *Lessons from a New Science* (London: Penguin, 2005).

Although these industries are not labor-intensive,[xvi] extractive companies must be concerned with the health and safety of their employees working on-site, as liabilities and hazardous situations constantly threaten extractive activities. Mining, in particular, can be a very risky business. Without effective policies, processes, technologies and management, injuries, accidents and even fatalities can occur at alarming rates. In operating environments (such as certain resource-rich countries in Africa) that do not legally require or provide reliable third party safety inspections, a managerial lack of oversight can severely jeopardize employees' safety. The riskiest mines to work in are those that (1) are especially deep, (2) have confined spaces and limited access, (3) are run by negligent or untrustworthy managers or (4) extract harmful substances (e.g. radioactive materials).

Given the work-life imbalance characteristic of those who work in mineral and oil extraction, workers are more likely to lead unstable lifestyles, susceptible to drug usage, alcoholism and contracting HIV/AIDS through sexual promiscuity or sex workers. Beyond the potential disabilities from accidents and health problems from unstable lifestyle choices, workers can be exposed to substances that are equally harmful to the environment as they are to human beings. For instance, gold miners could suffer from mercury poisoning, and uranium miners could contract lung failure (also known as stiff lung or brown/black lung) from radioactive dust.

When extractive companies make employee health and safety a priority, they often benefit from higher productivity, lower absenteeism, greater innovation (resulting from efforts to create safer, more effective processes) and other positive contributions to the financial bottom-line and the company's intangible assets.

Once companies close mines or finish drilling projects, local workforces should not be dependent on employment in the extractive companies. Transferable knowledge and skills are critical assets for companies to leave behind. Australian mining researchers have found that:

> skills that are arguably the most transferable beyond a mine are general, trade, professional and higher management skills and those developed through indirect pathways, such as the operation of local [indigenous] businesses and joint ventures. For instance, the training and employment of local [indigenous] health

Alcohol and Other Abuses: GEMCO [BHP Billiton]

Over the past 40 years, GEMCO and the Indigenous community have tried various strategies to manage alcohol-related issues, with limited success. …In 2002, [GEMCO] initiated the development of a liquor management plan [that]…passed as law under the *Northern Territory Liquor Act* [in] 2005…and [has led to] significant decreases in criminal charges [which are expected to have a positive impact on health statistics, as they are often] directly affected by alcohol-related issues, [such as] aggravated assaults and domestic violence. [Furthermore,] absenteeism [at the mine has] decreased from an average of 9 percent to 2.5 percent. …Importantly, the Groote Eylandt Liquor Management Plan has been accepted by the local people as 'this is what we do on Groote' and is seen not as the exception but the norm – a very positive sign for the long term. Such an exceptional outcome supports the sustainability not only of [GEMCO's] business but of the community as a whole, through continuing improvement to the health and wellbeing of the people of Groote Eylandt.

Source: BHP Billiton's 2007 sustainability report. As cited in: Clarissa Lins and Elizabeth Horowitz, "Sustainability in the Mining Sector," *Brazilian Foundation for Sustainable Development* (July 2007): 72, www.fbds.org.br/IMG/pdf/doc-295.pdf (accessed July 10, 2009).

and emergency workers at mines can help build local capacity to improve and maintain healthcare services in surrounding communities.[xvii]

The full impact of employment in extractive industries for local workers remains uncertain, and further research is necessary in order to discover the full affect on workers' futures.[xviii]

Communities

Local communities are the foundation upon which extractive companies build their projects. Communities and the individuals within them provide land for projects, supplies, workers and, most importantly but far less tangibly, the *social license to operate.*

The social license to operate is the "free, prior and informed consent" from local communities to extract resources at a site.[xix] Gaining a social license to operate may not be an easy task, considering the multitude of variables that could lead to distrust and doubt over extractive companies' interests. In addition to language and cultural barriers, some extractive company representatives – particularly those who relocate frequently or who are involved in the exploratory stages - view their stays in the communities as short-term. Communities, of course, have a long-term interest in the maintenance of their own socio-cultural norms and the improvement of the human and economic well-being, both of which are areas that extractive companies can impact significantly. Utilizing best

Engaging mining communities during different stages of extraction

1. "Exploration:
   - i. Identify and inform communities
   - ii. Overcome mismatch of interests
2. Project design stage
   - i. Build respect and trust
   - ii. Consult with affected communities
   - iii. Minimize negative impacts
3. Operational stage
   - i. Forge effective community partnerships
   - ii. Set up joint monitoring arrangements
   - iii. Support training and capacity building
   - iv. Outsource jobs to community
4. Closure stage
   - i. Physical reclamation
   - ii. Help community prepare for mine closure"

Source: Strongman, "Mining and the Community: from Enclave to Sustainable Development." 1998): 60.

practices for community engagement is an effective way to align corporate and community interests, and the textbox, *Engaging mining communities during different stages of extraction*, outlines key steps of this important process.

During the exploratory stages, companies are likely to have little interest in establishing community relations, due to the uncertainty of whether or not they will enter into production. But, these early stages are just as crucial as the later ones for establishing trusting, mutually-beneficial relationships. As noted by McMahon and Remy, "[t]he way the company approaches integration with the community is a determining factor for how the community perceives the project."[xx] If its approach is not satisfactory, the company may not receive the social license it needs to operate.

Value chain actors

Globalization has facilitated an increase in the number of suppliers that companies can use and, as a result, has increased the risk of becoming complicit with irresponsible suppliers. For example, if a large mining company sources minerals from or contracts with small or medium-sized companies that do not comply with basic regulatory measures or operate in ways that conflict with its values, the large company is complicit in the other companies' negligence.

Small- and medium-sized extractive companies provide both challenges and opportunities for large, multinational industry leaders. Since the majority of 'world-class' deposits (those of exceptional quality and quantity) have been explored, smaller deposits of lower quality provide a market niche for small- and medium-sized companies. Thus, when large multinationals are not using cutting-edge technology to extract more from pre-existing deposits, these companies are sourcing some of their resources from smaller companies operating in risky, often undeveloped or unstable, environments.[xxi] When large extractive companies purchase from small and medium companies, these smaller companies part of their value chains. Even if they are not sourcing from them, large companies essentially become responsible for the activities of the smaller companies, since the impacts of the latter reflect on the industry as a whole.[xxii] Later, the report will discuss the critical importance of monitoring and auditing value chain activities for multinational companies that wish to maintain their reputation and, subsequently, their social license to operate.

ENVIRONMENTAL IMPACTS

As evident in the previous section, social impacts and environmental impacts are not entirely separable and can aggravate or initiate new impacts. The inter-relation between environmental and social impacts, which could be phrased as the "ecological impacts," is important to keep in mind. According to the World Bank's assessment:

> [t]he adverse environmental consequences [of oil, gas and mining activities] include damage to habitats and biodiversity, greenhouse gas emissions which contribute to global warming, regional air pollution problems such as acid rain and forest degradation, soil and water contamination, and local air pollution which threatens the health of urban dwellers.[xxiii]

First, this section will explore the potential damage to land, which includes soil and water contamination; then, this section will discuss companies' ability to measure and report on these damages.

Land Remediation

Land ownership and control is an important issue that should be settled before extractives begin exploring a site; however, Disputes over property rights (which frequently involve indigenous communities)[2] can aggravate environmental concerns, as

[2] As mentioned, as multinational firms expand extraction activities in search of less-depleted or untapped resources, they are likely to come into contact with more traditional populations that may not be

the uncertainty over ownership can heighten tensions over what party is ultimately responsible for any negative impacts extraction has on the land and its water sources.

Land remediation (or reclamation) is the process of returning an extraction site – and any affected bodies of water or land adjacent to the site – to its original state. It is an important process for companies to undertake to ensure they do not leave the environment worse than when they arrived. If they do leave the land or water sources worse off, they can be held responsible by local community stakeholders in court, by governments (which have the authority to revoke legal licenses to operate), or by both parties. Some extractive companies go beyond a "do no harm" approach and implement site remediation plans that leave the land and/or its water sources in better conditions than when they arrived. The case study in the textbox *BHP Billiton: Mine Closure in Indonesia* illustrates how one mining company not only remediated the land but also created social safety nets for the workers and communities affected by the site closure.

Other Harmful Impacts

Extractive companies with well-established CSR/sustainability initiatives are well aware of the negative impacts their operations can have on the environment. For well over a decade, companies across all sectors have been able to systematically and empirically monitor their environmental impact using the ISO 14000 series, an environmental management system (EMS). In response to stakeholders' calls for transparency (accompanied by efforts to maintain their social licenses to operate) and growing recognition of the effects of climate change, extractive companies are also increasingly performing environmental life cycle assessments (LCAs), which measure the cradle-to-grave impacts of a company's activities. Given the empirical nature of LCAs

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accustomed to operating in a market-based economy. For this reason, it is important to note the difference between operating in indigenous and non-indigenous communities.

BHP Billiton: Mine Closure in Indonesia

Eco-Tourism Plan

"Based on community meetings and the Environmental Impact Assessment of the site, plans were formulated with the assistance of a local NGO [to turn the former extraction site into] an eco-tourism park with lakes for fishing, a camping area, educational forest, children's playground, native deer park, jogging track and supporting facilities such as picnic shelters, places for eateries serving local foods, a parking area and access roads. A clean water supply would be provided for the park and for three neighboring villages. A formal closure plan was then drawn up for sign-off by all stakeholders. The process included building topographic models of the planned eco-tourism park, including lakes and trees where mining pits had been. A review of the plan and inspection of the site was carried out by a special government team comprising representatives from the Ministry of Energy and Mineral Resources, Ministry of Forestry, Indonesian Research Institute, Geological Research Institute and local government. Central government approval to the plan was granted in September 2002."

Implementing the Closure Plan: Local Partnerships and Workforce Development

"Post-mine rehabilitation was undertaken according to BHP Billiton policy, standards, procedures and protocols. The Indonesian Government also issued technical directives on rehabilitation through the Ministry of Energy and Mineral Resources, Ministry of Environment and Ministry of Forestry; however, higher standards than required were often adopted to meet community aspirations and Company standards, particularly in regard to technical aspects such as erosion potential, topography, drainage, maintenance of roads and recycling. It was also essential to ensure that buried tailings could not leach or oxidize to become acidic.

…Programs were put in place to provide employees and local people with new skills, in anticipation of the time when PT Kendilo would no longer be the economic engine of the community. Training focused on the setting up of mechanical workshops for cars and motorcycles, sewing services, small trading shops and various farming endeavors. The NGOs also provided training in improved agricultural practices (beyond slash and burn) including growing cash crops for trading…

...The eco-tourism park was formally opened by the Bupati (district head) in November 2005."

Petangis mining pit prior to reclamation

Mining pit following reclamation

Fishing lake following completion of the rehabilitation program,

Source: BHP Billiton. "Environment Case Studies: Petangis Closure Receives Environmental Award," Sustainability Report 2006. http://sustainability.bhpbilliton.com/2006/documents/caseStudiesPDFs/Petangis%20mine%20closure%20and%20rehabilitation%20program%20receives%20environmental%20awards.pdf (accessed August 4, 2009).

and other monitoring tools, reporting on environmental issues is typically more straightforward and less complicated by the human elements of qualitative measurements, as social impacts are.

Newmont's Mercury Poisoning in Peru

On June 2, 2000, a truck from the Yanacocha gold mine in northern Peru spilled 150 kilograms of mercury out of some poorly sealed containers and onto a 43-kilometer stretch of road running through three towns. Many local people, not knowing what the material was or that it was toxic (and could lead to stillbirths, birth deformities, neurological disorders and loss of marine life), collected it in hopes that it was valuable. Other villagers were hired by the mine to clean up the spill; but, none were provided with any protective gear. The spill affected an estimated 925 people, 400 of which were treated for mercury poisoning and over 130 were hospitalized. The U.S.-based Newmont Mining Company spent $12 to $14 million on the clean-up but was still unable to account for nearly 15% of the mercury spilled. Some of the residents with continued health problems have attempted to press their case against Newmont in U.S. courts.

Source: Isabelle Anguelovski, "Environmental Justice concerns with transnational mining operations," *Earth Matters: Indigenous Peoples, the Extractive Industries and Corporate Social Responsibility*, ed. Ciaran O'Faircheallaigh and Saleem Ali, (Sheffield, UK: Greenleaf Publishing, 2008): 202-204.

Supporting the incorporation of standards like the ISO14000 into mainstream management, Citigroup's 2006 report titled, "Towards Sustainable Mining: Riding with the Cowboys, or Hanging with the Sheriff?" states: "[I]t is crucial that operational, risk management and decision-making procedures are introduced to identify, mitigate, manage and monitor environmental impacts effectively."[xxiv]

In sum, environmental impacts include contamination of land and water sources (for an example, see the textbox *Newmont's Mercury Poisoning in Peru)*, water consumption, waste management, greenhouse gas emissions and loss of biodiversity (e.g. due to oil spills). While these issues are important on their own, in the immediate term, these issues directly harm local communities, thus shifting the focus back to social impacts.

Economic and Political Impacts / Governance

When extractive companies report on governance, they are reporting on the way in which a company's executives or managers implement corporate values, goals and policies. Values, goals and policies increasingly must take economies and political landscapes into account. While previously, firms viewed governance as their responsibility to increase shareholder value, today, firms find it difficult to ignore the fact that their relationships with stakeholders have become more complex and interdependent. Beyond governing bilateral contracts, firms today must govern various multilateral contracts among their key stakeholders.[xxv] While more traditional shareholders could disagree with this assessment of the modern firm, according to Edelman, "investors are realizing that [CSR] management is a proxy for good management in general, and that solid [CSR] practices mark a healthy approach to risk and opportunities."[xxvi] Thus, governance deals with how extractive companies manage their complex relationships and integrate CSR into their operations. For example, BP's governance created policies that prohibit lobbying and political bribery. These decisions directly impact local economies and political environments.

THE BUSINESS CASE FOR CSR

Researchers have determined that a positively correlated relationship between CSR and financial performance does exist, for businesses in general. Marc Orlitzky, Frank L. Schmidt, Sara L. Rynes all received the Moskowitz Prize from the Social Investment Forum in 2003 for their meta-analysis of all prior studies on the relationship between corporate social performance (CSP) and corporate financial performance (CFP). Individually, none of the prior analyses could prove a positive or negative relationship between CSP and CFP; but, the award-winning meta-analysis enabled a more nuanced and precise examination of data, confirming a previously anecdotal positive relationship between CSP and CFP.[xxvii]

Additionally, in a study specific to the extractive industry, the main finding of Citigroup's previously mentioned 2006 study was that mining companies are more competitive when they are more sustainable. CSR/sustainability practices prevent the loss of social license to operate (e.g. protests) or corporate legal battles, both of which affect profit margins and can destroy company, as well as industry, reputations.

Although perhaps less-widely recognized, another model that demonstrates the business case for CSR comes from the Mining and Environment Research Network (Figure 2). Firms that embrace the needs and desires of their stakeholders often innovate in order to satisfy them. Creating new business strategies and operational practices and incorporating them into organizational models and technological processes can result in lower production costs as well as lower social and environmental impacts. The graph in Figure 2 demonstrates what happens when companies, mining in particular,

Ex-miner Suffering from Cancer Won First Court Case Against Multinational Mining Company

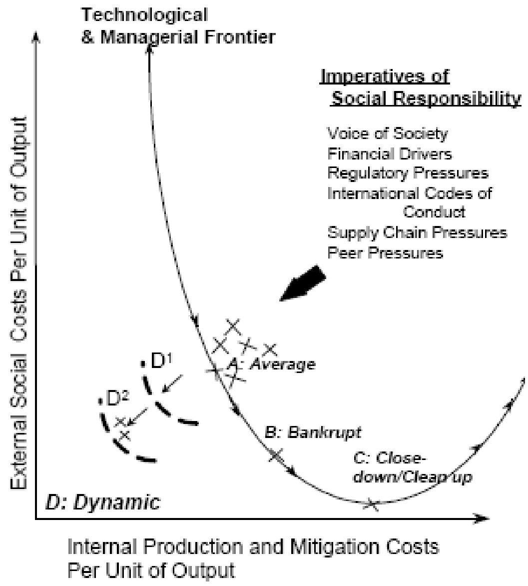
"…[A] British miner who had throat cancer and his larynx removed… worked from 1977 to 1982 for the Rio Tinto Zinc group of companies at the Rossing uranium mine near Swakopmund in Namibia. There he worked with primary ore crushers, huge hydraulic hammers that smashed uranium ore into fragments. His job, carried out in a cloud of uranium dust, was to repair machinery when it broke down. He believed that the radioactive dust he breathed while working there caused his cancer and, as a result, he sued the company in Britain for GB$400,000 in damages. The case went to the House of Lords. The law lords' ruling by four to one broke new legal ground. They ruled, despite opposition from Rio Tinto, that multinational companies with a U.K. base could be sued in British courts. The principle is important: it means that when a multinational company abroad, either through lack of funds or because the company there has no assets and can provide no redress, they can sue the U.K. parent company. The [lawyer]…who brought the case said 'transnationals have always hidden behind their subsidiaries and legally it has been hard to make them accountable.'

[After winning settlements in two other large mining cases, the lawyer], who acted in all three cases, said that courts 'delivered a salutary warning to the commercial world and indicated willingness on the part of the English courts to protect human rights in preference to commercial interests.'

Source: Gabriel Eweje, "Hazardous Employment and Regulatory Regimes in the South African Mining Industry: Arguments for Corporate Ethics at Workplace." *Journal of Business Ethics* 56. (2005): 168-69. With information included from: "How Britain can stop exploitation overseas: Multinational companies with a British base can no be sued here," *The Times* (10 November 1998): 39.

move their pre-existing technological and managerial frontiers from A (average) to D (dynamic). This movement makes companies more efficient and enhances their social performance.[xxviii] The "dynamic business trajectory [presented here has] the potential to reconcile the public interest with the commercial imperative."[xxix]For industry laggards that do not accept that the business case for CSR applies to them(e.g. given their own unique geographic position or minimal role in extractive projects), they should, at least, be aware that the established legal precedent could have rather significant repercussions.

Figure 2: Trajectory of CSR in Mining



Source: Alyson Warhurst, "Corporate Social Responsibility and the Mining Industry," Mining and Environment Research Network, Presentation to Euromines (Brussels: June 4, 1998), www.mineralresourcesforum.org /docs/pdfs/merncsr.pdf (accessed October 29, 2008).

The textbox titled, "Ex-miner Suffering from Cancer Won First Court Case Against Multinational Mining Company," shows that companies can be held legally responsible for the damages to workers' health and safety, even if incidents occurred under the management of subsidiary companies. As cases brought against oil companies for the exploitation of the Amazon have demonstrated, companies can also be held responsible for environmental damages as well.

THE CSR LEADERS IN THE EXTRACTIVE INDUSTRIES

Leadership is an important aspect of CSR because industry leaders often set the pace for adoption by the rest of the industry. The large multinationals with their broad global reach and extensive networks of financial and human resources are often the industry leaders that create the industry's best practices and policy frameworks. A 2007 study by the Brazilian Foundation for Sustainable Development supports this conjecture, stating that "[i]ndustry leaders [particularly those in mining] are no longer simply interested in complying with existing legislation. Instead, they are working to move beyond this point to create practices that others can adopt."[xxx]

The risks of brand-damaging publicity, losing large foreign direct investments, legal liability, etc…are considerably greater for large industry leaders than smaller firms with less name recognition. Given their highly-networked operational structures and the confluence of other pressures, large multinationals interested in their own corporate longevity *must* adopt CSR practices. If they have not done so already, they are dangerously out of touch with their consumers, employees and socio-political operating environments.

Leaders, by nature, set high goals, which, when accomplished raise group standards, if the followers in the group wish to maintain their relevancy. For example, Petrobras, recently rated the world's most reputable energy company,[xxxi] aims "to become an international benchmark in social responsibility for business management, contributing to sustainable development."[xxxii] While this is indeed a noble goal, it is highly unlikely that there is not self-interested rationale driving it.

Once a company becomes an industry leader, it not only has the ability to attract customers and talented workers because of its strong brand recognition and reputation, it also has the ability to influence or lead government policy changes that will have direct impacts on its operations and financial bottom-line. As is well-known, compliance with government regulation can be costly. Given the costs and volatility of stakeholder expectations, staying one step ahead of the policy changes – or, even better, contributing to them - can result in significant cost savings. At a time in which climate change and depletion of natural resources are top concerns for most countries, changes in regulatory climates are imminent, and strategic-thinking extractive industry leaders recognize an opportunity to influence these policy changes.

Various methodologies and indices evaluate CSR/sustainability leadership. Major indices include the Dow Jones Sustainability Indices (DJSI), FTSE4Good (an independent index jointly owned by *The Financial Times* and the London Stock Exchange) and the newly created ISE (part of Brazil's Ibovespa Sao Paulo stock index, which is described in the textbox, *Although Still Developing its Political-Economy, Experts Recognize Brazil as a Leader in Sustainability and CSR initiatives*). Social research and accountability firms, such as KLD Research and Analytics,[3] screen companies' CSR/sustainability practices for inclusion in socially responsible (SR) and institutional funds, such as those at Morgan Stanley, Citigroup, Credit Lyonnais and Vanguard. While the expansion of CSR research and analysis in recent years is a sign of its growing importance, there continues to be a considerable amount of discrepancy in the findings of the various ratings and analyses. However, this is to be expected given the nascence of CSR as a business practice.

Methodology

In order to determine the credible leaders in mining, the section immediately following will compare the Reputation Institute's 2009 list of reputable companies with the list of industry leaders determined by the Brazilian Foundation for Sustainable Development's 2007 report, "Sustainability in the Mining Sector." Then, following the

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[3] According to its website, KLD is the "leading authority on social research and indexes for institutional investors… 31 of the top 50 institutional money managers worldwide use KLD's research to integrate environmental, social and governance factors into their investment decisions" (www.kld.com/about).

exploration of discrepancies between reputation and sustainability in mining, the following section will explore the extractive industries' ratings on Sustainability Asset Management (SAM), a rating agency that evaluates companies' ESG performance for the DJSI.

Discrepancy between Reputation and Sustainability in Mining

As noted earlier in the chapter, practicing sustainability does not behoove companies to integrate ethics and transparency into their operations. Therefore, it is not surprising that there would be a discrepancy between a company's sustainability rating and its credibility or trustworthiness with its stakeholders. This section highlights those inconsistencies by comparing mining companies' reputations (determined by the

Although Still Developing its Political-Economy, Experts Recognize Brazil as a Leader in Sustainability and CSR initiatives

"In today´s highly visible trend of sustainability and social responsibility, Brazil is up front, way ahead of the USA and in many respects ahead of ecology-conscious Western Europe. The country recently inaugurated ISE, one of two sustainability indices worldwide as part of its Ibovespa Sao Paulo stock index. Johannesburg is the only other financial center with a similar index. Brazil´s top companies, including oil multinational Petrobras, rank among the top in sustainability, according to Management and Excellence, a Madrid-based sustainability research agency. The volume of advertising involving sustainability and social responsibility is one of the largest worldwide. Brazil´s biggest company, Petrobras, offers its own MBA in sustainability, and the country´s most famous business school FGV (Fundaçao Getulio Vargas) offers various programs in sustainability and social responsibility.

Where this explosive commitment comes from? One reason social responsibility is not new to Brazil. As a country with relatively weak social programs, the big companies have gotten used to pick up the slack and help society.

…Another factor is certainly Brazil´s heightened awareness of ecology issues. The country once known for cutting down its own rainforest is reacting vigorously and becoming more ecology oriented than most. It is now recycling old tires, using the material to construct more durable roads, and is the only industrialized country which achieved self-sufficiency in energy last year**.** Much of its energy comes from biological sources, not petroleum."

Source: William H. Cox. "Brazil: Leader in Sustainability," MBA4Success (date not given, but published before April 2007) www.mba4success.com/pages/news/news_content.php?id=99&hpagesheader=Brazil:-Leader-in-Sustainability (accessed June 28, 2009).

Reputation Institute's 2009 list of the world's 600 *largest*, most reputable companies)[4] with their 2008 SAM sustainability ratings (see Table 2).

A good example of the discrepancy between reputation and sustainability is Newmont. Although it ranked as one of the top four sustainable companies in its industry, it did not appear on the Reputation Institution's list of the world's most reputable companies. The lack of inclusion is not due to its size, since it appears on the 2009 Fortune 500 list.[xxxiii] Media news stories and NGO reports about Newmont suggest that it has lost considerable credibility in the eyes of individual consumers, its local communities and its workers.

SAM's remaining top performing mining companies, however, did appear on the Reputation Institute's list, with the exception of Xstrata (a fact that should not be surprising, given that Xstrata is an emerging industry leader and likely to be relatively small, considering its initial public offering on London's Stock Exchange occurred in the spring of 2002[xxxiv]). Comparing information from these rating lists suggests that a discernable gap exists between leaders in sustainability in the mining industry and mining companies perceived to be credible and trustworthy.

Discrepancy among Sustainability Ratings for Extractives

The various findings of sustainability rating agencies creates a noteworthy difference of opinion regarding extractive industry leaders. For example, two DJSI[5] indices included Rio Tinto, but FTSE4Good excluded it in 2006 because it mined uranium.[xxxv] The fact that the specific *kind* extraction matters in assessing a company's

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[4]The Reputation Institute evaluates seven factors: performance, products/services, innovation, workplace, governance, citizenship and leadership. Reputation Institute, "2009 Global Reputation Pulse: The World's Most Reputable Companies," (2009): 3. http://www.reputationinstitute.com/advisory-services/pulse-signup (accessed July 21, 2009).

[5] For details on DJSI's evaluation criteria and weightings, see Appendix B.

responsible behavior or contributions to sustainability is an important fact to note. Mining uranium is rather contentious given the mineral's radioactivity and its essential role in generating nuclear power, a much-debated source of energy. Many people (one could even presume, particularly those who experienced the Chernobyl nuclear reactor disaster in 1986) strongly disapprove of any usage of nuclear substances for energy purposes. Although this paper will not explore whether or not the uses of extractive natural resources are sustainable, it does find that greater research and development in the alternative energies field is necessary in order to determine whether or not the extraction of certain resources contributes to or detracts from sustainability.

In contrast with Rio Tinto, BHP Billiton, a UK-based company and "the world's largest diversified resources company,"[xxxvi] is a rather uncontroversial leader in sustainability, recognized as a high performer across all sustainability ratings and indices (including DJSI, FTSE4Good, Goldman Sachs and Citigroup's mining study)[xxxvii] and, furthermore, named one of the world's most reputable companies.[6] In 2006, the Brazilian Foundation for Sustainable Development named BHP Billiton a leader because:

> [It] has won various international prizes for its social and environmental initiatives, and has clear, publicly available long-range plans developed in partnership with stakeholders….[It] has partnered with more than 30 organizations to meet its social and environmental objectives….Most remarkable are its concrete attempts to move well beyond compliance to a focus on environmental protection. It is also the only company in the sector examined here that has met its self-defined energy and water reduction goals.[xxxviii]

For more details on the findings of this study, including a comparison of five mining companies across 13 sustainability criteria categories, see Appendix D.

Table 2 below shows SAM's selection of the world's leading sustainable oil, gas and mining companies. In its 2009 report, SAM evaluated 34 of the 76 mining companies

[6] Listed among the top 100 on the Reputation Institute's 2009 list of the world's most reputable companies.

Table 2: SAM and PwC, 2009 Sustainability Ratings (created for Dow Jones Sustainability Indexes (DJSI))

Sector	Distinction	Company	Country	Region
Mining	Bronze	BHP Billiton Group	Australia	Pacific
Mining	Gold	Xstrata Plc	Switzerland	Europe
Mining	Gold	Rio Tinto	United Kingdom	Europe
Mining	Silver	Anglo American Plc	United Kingdom	Europe
Mining	Silver	Newmont Mining Corp	United States	North America
Mining	*unrated*	Anglo Platinum Ltd	South Africa	Europe
Mining	*unrated*	Lonmin	United Kingdom	Europe
Mining	*unrated*	Barrick Gold Corp	Canada	North America
Mining	*unrated*	Teck Cominco Limited	Canada	North America
Oil & Gas Producers	Bronze	Royal Dutch Shell Plc	Netherlands	Europe
Oil & Gas Producers	Bronze	EnCana	Canada	North America
Oil & Gas Producers	Gold	Total SA	France	Europe
Oil & Gas Producers	Gold	Eni SpA	Italy	Europe
Oil & Gas Producers	Gold	StatoilHydro ASA	Norway	Europe
Oil & Gas Producers	Gold	Repsol YPF S.A.	Spain	Europe
Oil & Gas Producers	Gold	Woodside Petroleum	Australia	Pacific
Oil & Gas Producers	Silver	Neste Oil Oyj	Finland	Europe
Oil & Gas Producers	Silver	Sasol	South Africa	Europe
Oil & Gas Producers	Silver	BG Group	United Kingdom	Europe
Oil & Gas Producers	Silver	Petroleo Brasileiro	Brazil	Latin America
Oil & Gas Producers	*unrated*	BP Plc	United Kingdom	Europe
Oil & Gas Producers	*unrated*	Nexen Inc	Canada	North America
Oil & Gas Producers	*unrated*	Suncor Energy Inc	Canada	North America
Oil & Gas Producers	*unrated*	Origin Energy Ltd	Australia	Pacific
Oil & Gas Producers	*unrated*	Santos Limited	Australia	Pacific

Created by: Mary Beth Snodgrass

Data Source: Sustainable Asset Management (SAM). "Sustainability Tool" (2009) (database search) http://www.sam-group.com/yearbook/tool/ (accessed July 20, 2009).

in the world (about 45% of all mining companies in existence), finding nine industry leaders,[xxxix] and 46 of the 109 oil and gas producers in the world, (about 42% of all oil and gas producers in existence), finding 12 industry leaders.[xl] Tables 3 and 4 show enormous large discrepancy between the performance of these industry leaders ("Best Score") and the average performance of all the companies assessed.[xli]

Table 3: Mining Companies Assessed by SAM

Dimension	Average Score*	Best Score
Economic	53%	93%
Environmental	39%	92%
Social	46%	90%

Table 4: Oil & Gas Companies Assessed by SAM

Dimension	Average Score*	Best Score
Economic	57%	84%
Environmental	39%	86%
Social	48%	84%

In the oil and gas industry, BP and Petrobras[7] ("Petroleo Braziliera" on SAM's list) are two of the most distinguished leaders in CSR/sustainability, despite the fact that DJSI recognized Eni as the leader in 2009. These companies stand out because they have been given numerous awards for their work and have demonstrated a commitment to *internalizing* CSR, by focusing some of their core business operations on commercializing clean, alternative energies. Petrobras' list of accomplishments includes:

- Commended by the UN's Global Compact for its quality annual sustainability reporting, three years in a row (2005-2007)[xlii]
- Recipient of the Reader's Choice Award for its 2008 Global Reporting Initiative (GRI) sustainability report (out of an impressive pool of 800 reports)[xliii]
- Considered a "transparency reference" among all national oil and gas companies by Transparency International[xliv]
- Recognized as the world's most sustainable oil and gas company in 2008 by Management and Excellence (based on almost 400 ethics and sustainability indicators)[xlv]

BP's list of accomplishments include:

- Ranked in the top 10 of AccountAbility's list of the 100 largest (by revenue) sustainable companies worldwide

7 60% of its shares are publicly traded, but the Brazilian government is still in control, as the owner of the remaining 40% of shares. *Source:* The Economist, "Oil and Revolution," (July 23, 2009), www.economist.com/world/americas/displaystory.cfm?story_id=14094028 (accessed August 2, 2009).

- Ranked in the top five of the Climate Group's 'Top Climate Brands' for the second year in a row.
- One of two award recipients in the oil and gas industry for Corporate Register's Reporting Awards:[xlvi]
    - 2nd runner up in "Relevance and Materiality"
    - 1st runner up in "Openness and Honesty"
    - 2nd runner up in "Credibility through Assurance"

BP and Petrobras' leadership is also due in no small part due to their leadership in creating alternative energies. In 2005, 98% of the BP's core profits came from oil and gas. That year, the company formed BP Alternative Energy, a group that has become one of the world's largest providers of alternative energy.[xlvii] In recent years, Petrobras operated three biofuel refineries that produced 200 million liters of biodiesel, and under the company's new 2020 Strategic Plan, Petrobras aims to triple that amount.[xlviii] Another sign of its leadership in alternative energies is its contract to work with the U.S. Department of Energy on developing and commercializing biofuels for general public consumption.[xlix] BP and Petrobras' growing commitments to develop clean, alternative energy are signs that the companies are working towards decreasing the harmful environmental impacts of their core business practices; they have successfully internalized CSR. To determine whether or not a company has internalized CSR, the company must monitor and report its activities.

THE ROLE OF MONITORING AND REPORTING

Monitoring and reporting on CSR initiatives often provides valuable information to the company as well as its stakeholders. Many extractive companies now publish annual sustainability reports, either in response to pressure from stakeholders for transparency or due to a proactive interest in informing stakeholders about policies, goals, projects and achievements. Citigroup's 2006 sustainability study found:

> …strong correlations between companies that don't report [on their sustainability initiatives] and companies that score poorly in [Citigroup's] Index…. [A]lthough companies will often protest to the contrary, corporate disclosure on sustainability issues is almost always a good indicator of underlying corporate performance on these issues.[l]

The Global Reporting Initiative (GRI), "the world's most widely used sustainability reporting framework,"[li] received 1,000 sustainability reports from organizations in 2008, an increase of 46% from the 2007. The 46% increase in GRI submissions demonstrates the growing importance of having a global standard for sustainability reporting. While GRI aims to standardize reporting, it also aims to provide quality sustainability reports that take into account industry-specific issues. Extractives, for instance, face unique reporting challenges that other industries do not face (e.g. impacts on indigenous communities); therefore, *ad hoc* GRI committees are creating a *Mining and Metals Sector Supplement* and an *Oil and Gas Sector Supplement* to ensure greater reporting consistency within these industries.[lii]

Despite the progress in standardizing monitoring and reporting, these activities are time consuming activities for extractive companies. Monitoring, for example, requires that companies not only keep track of their social and environmental impacts but that third-party auditors verify these records. As far as rating agencies and investment indices are concerned, each entity has a different set of reporting requirements. For example, to apply for inclusion on the DJSI, a company must complete SAM's 100-question application and submit thorough documentation regarding its social, economic and environmental performance. According to the director of CSR at a U.S.-based oil and gas company, reporting on CSR/sustainability practices requires an enormous time commitment. Some questionnaires, such as the GRI, ask companies to answer redundant questions, adding to the frustration of the companies voluntarily reporting their activities. Even the 'One Report,' an aggregate reporting process created to reduce the amount of time and resources companies dedicate to reporting,[liii] is not as user-friendly as it claims to be, says the same director of CSR.[liv]

Another hurdle to overcome is the difference between monitoring and reporting on environmental impacts versus social impacts. With life cycle assessments (LCAs) or other methodologies, assessing environmental impacts is a far more empirical and standardized process. Although some pioneering extractive companies have created their own social impact assessment methodologies, these rely much more heavily on "soft," qualitative information, which is not as easy to compare or standardize. Examples of companies that created their own internal social impact assessments include Hess Corporation, an oil and gas company with a solid history of social responsibility, and Anglo American, one of the world's largest mining companies. Anglo American's highly regarded Social-Economic Assessment Toolbox (SEAT) assesses, measures, and manages the company's impacts.[lv] *The Economist* praises the SEAT process as one of the most sophisticated models for allowing the company to identify its key local stakeholders, create plans to improve the outcome of its projects and develop trust (which secures their social license to operate).[lvi] What, then, are some of the factors that have led companies to increase their reported CSR activities?

GLOBAL CONDITIONS DRIVING EXTRACTIVES TO ADOPT CSR

Stakeholder Access to Information

With advancements in information technology, stakeholders have more access to information on corporate activities today than ever before. With the internet, email, text messaging and other mediums that inform large groups of people instantaneously, stakeholders are interacting more and demanding greater transparency and information. For instance, NGOs are able to reach out and educate local indigenous populations about land rights and basic human rights. Armed with information and support from other societal stakeholders, these indigenous groups more actively demand corporations take accountability for how they treat the environment and behave within local political-economies. Companies may respond to these groups to maintain either their local social license to operate or their global reputation – or both. If they do not respond to local pressure because they do not believe their social license to operate is threatened, they may be more threatened by the potential loss of their global reputation. If this is the case, NGOs may alert the media to attract the attention of society at large, which then pressures companies to take the necessary steps to protect their global reputations.

Liberalized economies and political environments

Over the past decade and a half, structural changes in extractives operating environments have significantly increased access to new regions for exploration. The liberalization of political regimes and financial regulations in developing countries has been a crucial aspect of these structural changes.[lvii] As noted by the *Mining and Environment Research Network*, a decline in the risk of public appropriation of private companies and the liberalization of investment regimes in developing countries created both challenges and opportunities.[lviii] More liberal investment regimes have allowed for freer flowing foreign direct investment (FDI), but, while the ability to invest in resource-rich developing countries has increased, the investment risks of operating in politically or socially unstable environments remain. To manage these risks and protect companies' best interests and assets, they adopt socially responsible policies and practices that can be adapted to and implemented in any region.

Scarcity of Resources and China's quest to fuel its growth

The world's growing scarcity of natural resources generates greater competition for the remaining resources. This heightened competition generates incentives to "cut corners" and engage in practices of questionable ethics and transparency. This appears to hold true for firms based in certain countries more than others. China's hunger for resources has led the way in what nation-states party to the Organization for Economic Cooperation and Development (OECD) would consider questionable business practices. China's quest for resources contributed to unprecedented energy consumption in 2008:

> [N]et growth in energy consumption came from the rapidly industrializing non-OECD economies, with China alone accounting for nearly three-quarters of global growth. For the first time, non-OECD energy consumption surpassed OECD consumption.[lix]

As global energy demand grows, companies are increasingly looking for deposits in more remote, unexplored areas.[lx] The increasing demand for resources from BRIC (Brazil, Russia, India and China) country consumers combined with the volatility of the commodities market creates constant uncertainty regarding resource pricing. In efforts to maintain or improve financial

For Western-owned mining companies, CSR is a major competitive advantage, providing leverage against China's ambitious quest for resources in Africa

"The major mining groups' corporate social responsibility brings them a comparative advantage over their Chinese competitors in Africa. De Beers, [at a recent] conference, argued that it was a "partner of choice" for Africa since it will allow African countries to increase the added value of their uncut diamonds by 2011 [by] processing 25% of Africa's production. De Beers also said that between 45% and 90% of its managers employed in southern Africa are black, [a significantly more diverse workforce compared to other companies]. ArcelorMittal …competes with Chinese companies by offering what it calls a 'global package,' as illustrated by its iron mine project in Liberia, which includes an electric power station, a railway line, a port and the supply of medical care and training of engineers. For its part, Anglo American vaunted the fact that its platinum development project at Unki in Zimbabwe, which employs 700 people, had been maintained without - so far - having paid any tribute to President Robert Mugabe. In some cases the criteria of social responsibility vary from one company to another. Rio Tinto makes a virtue of not making political donations..."

Source: Africa Mining Intelligence, "Mining Majors Vaunt Social Virtues," (November 19, 2008), www.africaintelligence.com/C/modules/login/detailart/LoginDetailArt.asp?lang=ang&service=art&comment=&context=arc&doc_i_id=51655902 (accessed November 22, 2008).

bottom-lines, companies often try to develop deposit sites quickly, while the price of a resource is high.[lxi] Additionally, in the rush to unearth new resources, extractive companies increasingly clash with local populations over acceptable behaviors.[8] Thus, more interaction with local stakeholders has increased the importance of securing social licenses to operate.

Anti-corruption campaigns and increasing calls for transparency

> ***"When oil revenue in a producing country can be easily tracked, that nation's elite [is] more likely to use revenues for the vital needs of their citizens and less likely to squander newfound wealth on self-aggrandizing projects. When financial markets see stable economic growth and political organization in oil-rich states, supplies are more reliable and the risk premium factored into gas prices at the pump is lower. And as official corruption tempted by oil wealth abates, our foreign assistance dollars can do more to help the world's most needy."***
>
> ~ U.S. Senator Richard Lugar
>
> *Source:* Richard Lugar, "More can be done to prevent abuses from oil wealth," *Press Release*, (November 10, 2008), http://lugar.senate.gov /press/record.cfm ?id =304878&& (June 15, 2009).

In recent years, due in part to the industries' expansion to previously untapped resource-rich countries, companies have been under attack for colluding corrupt governments.[lxii] Corrupt usage of royalties generated from natural resource extraction revenues in developing countries has been typical of either weak regimes or strong dictatorships. Angola provides a good example of a country embroiled in corruption and abuse of power. Between 1995 and 2000, over $1 billion in oil revenues disappeared in Angola each year (at the time, $1 billion was the equivalent of about 1/6 of the national income).[lxiii] Embroiled in a civil war that started in the early 1970s, extractive companies soon realized that the safest way ensure uninterrupted operations was to pay-off both sides engaged in war. A French oil company, Elf, spent approximately $60 million *per year* in bribes worldwide, a

[8] Although one might expect governments to be concerned with the impact that extraction projects will have on their societies and ecosystems, often times, such concerns can be ameliorated or forgotten with satisfactory financial compensation (a.k.a. royalty payments).

portion of which went to Angola's warring parties. Corruption, however, does not stop with national representatives. High level personnel from oil companies with access to these political bribe "slush" funds (often stashed in Swiss bank accounts) have been brought to court under charges of siphoning off money for personal use.[lxiv] In an attempt to address such catastrophic and institutionalized patterns of corruption, the Extractives Industries Transparency Initiative (EITI) was created in 2003 and is discussed further in the next chapter.

EXTRACTION AND INTERNATIONAL DEVELOPMENT

Global concern over extractive industries' activities and international development heightened at the turn of the century, behooving the World Bank Group to investigate with an extensive Extractive Industries Review (EIR) from 2000 - 2004. The EIR determined that recipients of extractive project funding from the International Finance Corporation (IFC)[9] must report their impacts to monitor their overall affect on development and poverty. Since creating the EIR, the World Bank has been actively concerned with extractive industries' CSR. Despite the EIR's 2003 recommendation to

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9 "IFC is a substantial financier of minerals projects in developing countries and acts as a catalyst for the investment of additional private sector debt and equity funds in the projects which it finances. …IFC's operational and constitutional requirements require that the projects which it finances must: (a) be in the private sector in developing countries; (b) be technically sound; (c) benefit the local economy; (d) have the promise of producing profits; and (e) comply with World Bank social and environmental policies and with IFC guidelines... IFC provides advisory services to private companies in developing countries regarding project finance. IFC also provides governments with advice on privatizations, assist[s] in privatization transactions and help[s] finance the new investments of privatized corporations… IFC can help finance private mining projects through equity and loan investments for its own account and through mobilizing additional loan funds from commercial banks through its B Loan scheme. Through its financing operations, IFC is often able to play a helpful informal role as an "honest broker" between investors and governments, and it can assist governments to establish an appropriate framework to attract investment." *Source:* William Onorato, Peter Fox and John Strongman, "World Bank Group Assistance for Minerals Sector Development and Reform in Member Countries," *World Bank Group* WTP: 405 (1998): viii, http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/1999/09/10/000009265_3980624143657/Rendered/PDF/multi_page.pdf (accessed July 20, 2009).

phase out loans to oil production and coal extraction, the World Bank Group decided to continue issuing loans to oil, gas and all other mining industries due to their potentially positive impacts on development and poverty alleviation.[lxv]

Today, the IFC continues to financially support extractive industry projects, as it has for over 25 years. The IFC's current investment portfolios in these industries total over $4 billion.[lxvi]

BP provides, perhaps unintentionally, an excellent map for visualizing the importance of extractive companies' social responsibility in developing countries. BP's *Statistical Review of World Energy* provides global maps that estimate the amount of oil, natural gas and coal (among other energy sources) reserves as well as approximate regional consumption. For a casual observer of the oil reserves and consumption graphs (see Appendices I and J) with basic knowledge of the enormous development struggles facing Africa, the gap between Africa's oil wealth and its consumption is alarming. It raises questions about its vulnerability to exploitation and its ability to effectively handle the resource curse.

Resource Curse

The resource curse is a condition that resource-rich, developing countries experience when their resource wealth fails to generate financial income but rather leads the country into a state of sluggish or negligible development.[10] An example of a country that suffers from the impoverishing effects of the resource curse is Papua New Guinea

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10 The factors that bring the curse about are country-specific, usually due to a variety of geographical, social, political, economic and environmental factors. Economists and international development experts have various theories to explain the resource curse. Such theories include: a decline in the focus on enhancing the competitiveness of other economic sectors (which force an appreciation of the real exchange rate), fluctuating financial returns due to volatility of commodity prices), poor public sector management or weak institutions.

(PNG). Over the years, the PNG government created natural resource dependent culture while alienating numerous extractive companies because of the lack of responsibility it takes for its partnerships with the private sector, and even for its own people. A former government relations manager from an extractive company once commented:

> "[PNG] expects development, but [it] expects someone else to make it happen. There is a very poor understanding of the degree of commitment required to make the desired state attainable. The Government just sits back and expects the developer to make things happen. The landowners expect everything to be done for them because the developer is on their land. The developer is reluctant to take over what they see as the role of the Government."[lxvii]

Chevron Texaco's Role in Exacerbating the Resource Curse

"Texaco played a significant role in Ecuadorian policy-making [after the discovery of oil in Lago Agrio in 1967.] …The government embraced the petroleum economy as a means of modernization, development and poverty alleviation, and by 2001 46% of the country's income was based on oil revenues.¥ An Ecuadorian environmental agency was not established until 1984, and until then, Texaco extracted and exported oil in collaboration with Petroecuador (formerly CEPE) with no oversight or impact reports. Thus, with essentially no intervention by outside actors and minimal control over its activities, the company 'acquired a private, authoritative role within the Ecuadorian government.'±

…Unfortunately, this high dependence on oil revenues put Ecuador's economy in a vulnerable position… Throughout the 1980s and 1990s, Ecuador was forced to implement austerity programs that included unpopular restrictions on federal expenditures, such as cutting state subsidies for consumer goods and education/health services."

…."'*The reality of Ecuador is that there have been all these years of oil production and really it hasn't helped the Ecuadorian people live better. In fact, it is completely the contrary; before oil production the Ecuadorian population lived better…there was not as much debt as there is today….nor the poverty indexes as high as they are today. Before there were limits to the poverty…now we are poor.*'"µ

Source: Earth Matters: Indigenous Peoples, the Extractive Industries and Corporate Social Responsibility, ed. Ciaran O'Faircheallaigh and Saleem Ali, (Sheffield, UK: Greenleaf Publishing, 2008): 182-184. Including source citation of ¥Gerlach 2003; ¥ Martin 2003: 75; and µ a January 2007 statement from an anonymous Quito-based environmental NGO author

Clearly, stakeholder engagement of government officials fails in countries where government accountability does not exist. Nonetheless, as the textbox, *Chevron Texaco's Role in Exacerbating the Resource Curse,* illustrates, extractive companies' activities can have significantly negative impacts on a countries' political-economy. What the story does not provide details on are Chevron Texaco's on-going, expensive legal battles with local Ecuadorian populations that are a direct result of its complicit behavior and irresponsible management.

Workforce Development

Extractive industries have enormous potential to create new job opportunities in emerging markets. The best way to ensure more productive workforces in those markets is to treat employees well, or, in other words, institute and abide by CSR standards. Oil, gas and mining firms can create jobs in two ways. As discussed, they can hire and train local employees to work on-site, or they can create jobs by procuring products and services from local small- and medium-enterprises (SMEs). By doing business with SMEs, extractive companies are stimulating local economies and, in circumstances where they increase demand, creating new employment opportunities.[lxviii]

An example of a company that has a strong commitment to workforce development is Petrobras. Its social impact goals are to "contract [local] workforce and acquir[e] goods and services from the markets where it operates."[lxix] According to Petrobras' 2008 "Social and Environmental Report," the company procured 78% of its supplies (goods and services) from Brazilian-owned small and medium enterprises.[lxx] In fact, out of all of its 2008 social investment projects, Petrobras invests the most, US$18.8 million, in its "Generation of Income and Job Opportunity" projects. These projects, along with Petrobras' other social investment projects, have created about 10,000 jobs,[lxxi] a figure that is undoubtedly an important indicator of the impact that extractive companies can have on workforce development in emerging economies.

SUMMARY

Considering the portrayal of mining and oil and gas companies in the media, particularly when it comes to health, safety, the environment and indigenous land rights, one could easily develop a bias that the “talk” about CSR is not matched by the “walk.” However, after looking at various CSR/sustainability studies and corporate reports, another story emerges.

Industry leaders are charging forward, not without occasional setbacks, and creating more sustainable and responsible businesses. Changing corporate structures and behaviors takes a considerable amount of time and effort. As Edelman’s *Trust Barometer* report shows, in-house CSR departments have only emerged within the past three to seven years and, therefore, are essentially novice business units within companies. Also, as the Brazilian Foundation for Sustainable Development’s 2007 study on mining companies explains, even when goals do not align with results (Appendix C), industry leaders continue to innovate and persevere in order to reach those targets. On the other end of the spectrum, industry laggards continue operating as if nothing has changed in the past two decades, perhaps failing to recognize the business case for CSR or to receive crucial stakeholder messages about their expectations of business. Nevertheless, industry leaders are moving extractives forward, creating new processes[11] and new technologies that are influencing policy frameworks and, ultimately, raising compliance standards, which will force the rest of the industry to catch-up.

Meanwhile, the synergies between extractive industry activity and international development are demanding greater attention. The World Bank Group has recognized these synergies and supported extractive industries with loans and advisory services for a quarter century. Recent initiatives, such as the Extractive Industries Transparency Initiative, to be discussed in the next chapter, call attention to these synergies.

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[11] An example of one such innovation that an industry leader, Anglo American, has made available to other industry members is its Social-Economic Assessment Toolbox.

The social responsibilities that extractive industry leaders take on in order to maintain their social licenses to operate and protect their global reputation are not always burdensome. Taking on responsibilities can benefit these companies if they implement CSR correctly. For instance, developing infrastructure can facilitate the expansion of extractive projects, and enabling healthier, safer workforces can lead to increased productivity that increases profit margins in the long-run. The next chapter will discuss the various policies, standards and partnerships that support, guide and encourage companies enjoy these benefits of CSR.

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Section 2: Policy Developments and Recommendations

"[T]here is a growing consensus that the quality of business regulation and the institutions that enforce it are a major determinant of prosperity."[i]

At regional and international levels, private and public sectors are key to successful implementation of CSR in the extractive industries. From a more traditional perspective, the extent of the public sector's role in business is to provide a regulatory environment that sets minimum standards without involving itself in business activities. This chapter will explore the multi-stakeholder partnerships, supportive policy environments and voluntary guidance standards that incentivize companies to engage stakeholders and internalize CSR.

GLOBAL POLICYMAKERS

In 2002, at the United Nations World Summit on Sustainable Development, just before the Mining, Minerals and Sustainable Development initiative could launch its report, outraged indigenous groups interrupted with a statement, "United Outcry Against Mining Greenwash," that called for greater accountability from the mining industry for its impact on indigenous communities.[ii] This relatively recent protest on the international stage demonstrates the nascence of CSR in the extractive industries. According to the Mining and Environment Research Network, even though it was common for companies to publish their general sustainability policies and report on community and environmental management in the late 1990's, very few mining companies had incorporated CSR strategies into core managerial practices.[iii] Integration of CSR into operations and management is crucial if companies want to maintain their social licenses to operate in local communities around the world. Various international policies, networks and standards exist to facilitate such integration.

United Nations Global Compact

The United Nations Global Compact (UNGC) is a "strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labor, environment and anti-corruption."[iv] The UNGC has 5,200 corporate and stakeholder members, which makes it "the largest corporate citizenship and sustainability initiative in the world."[v] In order to demonstrate continued commitment to the UNGC's principles, members are required to submit an annual Communication on Progress (COP), which, if not posted, could result in participants' removal from the Compact. Many of the world's leading extractive companies participate in the UNGC.

Criticism

The UNGC has received much criticism over the years centered on its failure to place *quality* of participation over *quantity* of participants.[vi] Despite the controversy surrounding the UNGC's effectiveness, companies are not deterred from signing on to it. Extractive companies, in particular, often view their participation as necessary in order to maintain their social licenses to operate. In fact, the first U.S. oil and gas signatory to the UN's Global Compact, the Hess Corporation, says that its early accession to the Compact stems from the company's recognition of the UNGC's relevancy to maintaining its social license to operate.[vii]

Recommendations

In order to meet the goals it has established for itself and its member companies, the UNGC should create a more exclusive membership, comprised of CSR/sustainability industry leaders who can meet a clear, credible standard for corporate citizenship based on approval from third party auditors/monitors. These third parties could include research groups, such as KLD Research and Analytics, or sustainability rating agencies, such as SAM. Furthermore, the UNGC could create a more thorough admissions process. Such a tailored analytical process could compare and contrast the findings from a cross-section of auditors, monitors and reporting agencies. As the previous chapter demonstrated, comparing sustainability ratings with the Reputation Institute's annual Global Reputation Survey can highlight important discrepancies.

Furthermore, using industry-specific information to compare with sustainability findings would prove useful.[12] For the oil and gas industries, the Fraser Institute's Global Petroleum Survey,[13] which ranks regional barriers to investment in extractive projects, could provide insights on companies' accountability if they consistently operate in questionable (e.g. non-transparent and corrupt) regions (e.g. Sudan). The World Bank's Oil, Gas, Mining and Chemicals initiative[14] also seems a likely candidate for providing quality industry information and collaborating with UNGC on creating a new admissions process for extractive companies.

The World Bank Group

As previously mentioned, the World Bank and the IFC have played key roles in financing and advising international extractive projects in emerging market economies. To mitigate the risk of lending to industries with many potentially harmful impacts and to

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[12] As evidenced in by the GRI's on-going development of industry-specific reporting supplements, each industry faces its own unique CSR issues and challenges.

[13] The Fraser Institute's 2009 map of the Global Investment Climate for Petroleum Upstream Development is available in Appendix I.

[14] The Oil, Gas, Mining and Chemicals (OGMC) initiative "provides an integrated set of services in the sector, ranging from the financing activities of the International Finance Corporation to World Bank Loans, Technical Assistance, Guarantees, and dissemination of knowledge through its own publications." *Source:* The World Bank, "Oil and Gas Policy Issues," http://go.worldbank.org/CXMRQ8CNQ0 (accessed July 1, 2009).

Newmont Partners with IFC: Regains Social License to Operate in Africa

"Newmont Mining, one of the world's largest gold mining firms, sought IFC's help in managing the financial and social risks of its return to Africa after a four-decade hiatus. With IFC's assistance, Newmont aimed to reach high operational standards in a difficult region in order to obtain a social license to operate. The company needed a long-term partner with regional experience, particularly on environmental and social issues facing mining companies in Africa. IFC responded by structuring loan financing for its own account and that of participating banks, advising on environmental and social issues, and helping set up community development programs.

- **Financing –** IFC arranged a $125 million loan with an exceptionally long maturity of 12 years. IFC's risk appetite and political risk cover convinced commercial banks to join the consortium.
- **Environmental and Social Advice –** IFC supported a complex resettlement process affecting close to 10,000 people, working with two social specialists in Ghana. Backed by a team of environmental specialists, industry experts, and communications officers, IFC gave advice on the restoration of livelihoods, helped to commission independent studies, and supported Newmont with best practice advice on community consultations.
- **Local Supplier Development** – Initially Newmont faced unrealistic expectations among local people for a large number of mining jobs. IFC helped respond by contributing to a supplier program that enables local entrepreneurs to deliver goods and services to the mine. This small and medium enterprise linkage program creates jobs, improves the competitiveness of local businesses, and enhances regional business associations' ability to support their members.
- **Gender Empowerment Program –** IFC is helping Newmont promote female employees in their mining operations and supporting female small business development in nearby communities.
- **HIV/AIDS Program –** IFC partnered with Newmont in developing comprehensive HIV/AIDS awareness programs for staff and local communities."

Source: International Finance Corporation, "Case Studies: Ahafo Gold Mine, Ghana - Newmont's Return to Africa Continues a Long-Term Relationship," www.ifc.org/ifcext/coc.nsf/content /2B3752A462EFADDF8525758B0067A1E0 #Sector=Mining&Tab=2&Spotlight=3 (accessed July 28, 2009).

enhance opportunities for development, the IFC requires its clients to abide by eight social and environmental performance standards: (1) social and environmental assessment and management system, (2) labor and working conditions, (3) pollution prevention and abatement, (4) community health, safety and security, (5) land acquisition and involuntary resettlement, (6) biodiversity conservation and sustainable natural resource management, (7) indigenous peoples and (8) cultural heritage.[viii] Essentially, the IFC and World Bank advisors work with extractive companies to help them align their policies and practices with CSR/sustainability goals.

Public Controversy and the IFC

The IFC's performance standards and monitoring, however, do not provide guarantees against social and environmental harm. Throughout the 1990s, Newmont received over $100 million in loans from the IFC and syndicated commercial loans to operate the Yanacocha mine [ix] while the company shortly thereafter suffered a dramatic hit to its social license to operate.[x] The IFC's inability as a global institution to mitigate or monitor effectively the situation at the Yanacocha mine is alarming, given its shared mission statement with the World Bank Group.[15] However, since the IFC reports on only the *aggregate* social and environmental impacts of all of its projects,[xi] the social and environmental impacts from its investment in projects like Newmont's Yanacocha mine are not disclosed, creating yet another discrepancy between the "talk" and the "walk."

Recommendations

The World Bank Group needs to close the gap between its "walk" and its "talk." It can do this by (1) making a more concerted effort to ensure that all of the projects it supports abide by international law and (2) honoring its commitment to facilitating effective governance of its public sector clients by being transparent about the impact that its projects have in these countries. In line with enhancing the governance of its clients, as endorsers of and partners with the Extractive Industries Transparency Initiative (EITI), the World Bank Group should disclose disaggregated information regarding the nature of the social and environmental impacts of its projects.

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[15] The second part of the World Bank Group's mission is "to help people help themselves and their environment by providing resources, sharing knowledge, building capacity, and forging partnerships in the public and private sectors" *Source:* International Finance Corporation, "Mission," http://www.ifc.org/ifcext/about.nsf/Content/Mission (accessed July 20, 2009).

Extractives Industry Transparency Initiative

Founded in 2003 under the leadership of U.K.'s Prime Minister Tony Blair, the Extractive Industries Transparency Initiative (EITI)[16] aims to improve sustainable development by requiring transparent disclosure and reporting on government royalties paid by extractive companies. While there are benefits to both countries and companies when national investment environments are more attractive, the EITI centers on working towards achieving governments' compliance with its principles. It attempts to minimize the resource curse, which was discussed in the previous chapter. Since coming to an agreement about membership criteria in March of 2005, only one country, Azerbaijan, has attained EITI's "compliant" level; but, there are 28 more "candidate" countries working on meeting EITI's criteria (see Appendix N for a list of supporters and candidates).

> ***"While it is indeed discouraging that the fight against corruption is faltering in much of Africa, there is at least one bright spot: the Extractives Industry Transparency Initiative…"***
>
> *Source:* The New York Times, "Letter To the Editor, Re: "*Battle to Halt Graft Scourge in Africa Ebbs*" (June 10, 2009): front page of online edition, www.nytimes.com/2009 /06/13/opinion/l13africa.html?_r=2 **(**accessed June 13, 2009).

Since many of EITI's supporting companies are industry leaders accustomed to disclosing and reporting information, the main work of EITI centers on bringing candidate countries into the "compliant" circle, although this is not explicitly stated on EITI's website. As the director of CSR at a U.S. oil and gas company stated, the company's main challenges as a supporting member are not internal compliance with EITI principles but rather helping the governments they work with comply with these standards.[xii] After all, an extractive company may be paying

[16] "[EITI] underline[s] the importance of transparency by governments and companies in the extractive industries and the need to enhance public financial management and accountability. We recognize that achievement of greater transparency must be set in the context of respect for contracts and laws." *Source:* EITI Rules, Including Validation Guide, April 2009, http://eitransparency.org/files/2009-0420%20EITI%20Rules%20including%20Validation %20Guide.pdf (accessed Jun16, 2009).

government royalties in excess of 40% of their revenues;[xiii] but, the local population may not receive any direct benefits and blame the companies for failing to demonstrate any positive impacts in the region. This misunderstanding about could extol costs on their social licenses to operate and value of their global brand. Transparency of both the public and private sector is clearly an important objective for extractive companies.

Recommendations

To enhance the compliance with and implementation of its principles, EITI should educate policymakers on how to best ensure adherence to EITI standards and call for unified, public support from industry representatives. A 2009 joint publication by the National Democratic Institute, Revenue Watch International and the EITI International Secretariat, *EITI Guide for Legislators: How to support and strengthen resource transparency,* provides comprehensive guidance for policymakers in developed and developing countries on how to ensure governments remain accountable, safeguard stakeholders' interests and create effective related policies. The publication could be particularly useful in guiding officials on "budget monitoring and oversight, reinforcing anti-corruption and good governance initiatives, and improving the national investment climate."[xiv]

As far as industry and the EITI are concerned, primarily two organizations represent oil, gas and mining industries interests on the international stage: the International Association of Oil and Gas Producers (OGP) and the International Council on Mining and Metals (ICMM).[17] Of the two, OGP only affirms a commitment to accountability and transparency but does not express any public commitment to EITI on

[17] ICMM is a CEO-led organization that aims to increase sustainable development by requiring its corporate members to commit to its Sustainable Development Framework and that actively endorses and collaborates with EITI.

its website, even though EITI's website lists OGP as a partner. A 2003 industry association newsletter highlights the fact that there are deeper issues surrounding what may seem to be a simple oversight by OGP's web content management. The article expressed OGP's wariness of EITI in stating that the industry doubts governments' sincere willingness to commit fully to its principles.[xv] OGP's explicit support of EITI would not only demonstrate the industry's commitment to tackling transparency issues to its member companies but would also send a message to corrupt governments that industry leaders will not be as tolerant as they have in the past with their mismanagement of royalty revenues.

International Standards

There is a wide assortment of internationally-recognized CSR standards and certificates, including Social Accountability's SA-86000, the ISO 14000 series on environmental management, the ISO 9001 series on quality management, the Voluntary Principles on Security and Human Rights (for the extractive industries, specifically), the International Labor Organization's (ILO) Core Labor Standards, etc.... (see Appendix M for a more complete list). Although compliance is voluntary, many large multinational companies require their suppliers adhere to certain standards or obtain certain certificates. Some national governments are also incorporating them into their international trade or domestic policies, as will be discussed in the next section.

Recommendations

The international stakeholder community should rally around these voluntary standards. While their "soft power" is often contested, they at least offer standardization in monitoring, auditing and reporting of often complex social, environmental and economic impacts. More than that, voluntary standards have the potential to set the international "norm." The ISO's quality management and environmental management series offer evidence of voluntary standards that have become accepted at the operational "norm" for businesses around the world. The end of this chapter will discuss an upcoming voluntary standard, the ISO 26000, that has the potential to set an international norm for social responsibility.

NATIONAL POLICYMAKERS

"Corporate social responsibility should not be confused with or substituted for government social responsibility. Governments need to uphold and implement their national and international legal obligations... and strengthen legal, regulatory and judicial frameworks where these are weak.'"[xvi]

National governments hosting foreign extractive companies (or working with domestic private extraction companies) increasingly recognize that they share common stakeholders[18] with extraction companies; if they create policies that satisfy their own stakeholders interests', they are also satisfying the interests of extractive companies' stakeholders. Liberalized political and financial regulatory environments have given multinational companies' greater access to relatively more vulnerable, emerging markets than ever before. National governments should ensure that their domestic-based companies do not create security threats or violate international norms on human rights, either abroad or domestically.

Extractive industries deserve special attention by national policymakers because they engage in substantial interactions with foreign governments and citizens, which, essentially, makes them business diplomats. It is in the best interests of national security and policy that businesses' actions do not create more harm than good, as there are many potential ramifications. In the short-term, poor, rural populations that "feel slighted" by

[18] To clarify, government's primary stakeholders are its people; and local communities and employees are the companies' stakeholders.

representatives from developed economies are more susceptible to becoming supporters of terrorist activities. In the long-term, substantial environmental harm and worsening social conditions stimulate migration. Immigration to Europe and the U.S., for example, has become an increasingly contentious national policy issue. Clearly, the activities of extractive companies are policy concerns for nation-states around the world.

General Recommendations

Increase standardized reporting on non-financial issues: Japan and some European countries are leading the way as far as requiring CSR/sustainability reporting. Out of all the countries with reporting requirements, Sweden leads the way, standardizing reporting across all state-owned companies (see Table 5 for the country-specific requirements). Reporting is important to facilitating CSR/sustainability because, as previously noted, there is a strong correlation between companies that do not voluntarily report on their impacts and the companies whose activities are socially and environmentally harmful. Furthermore, the complex interdependence of national economies and the private sector, which became more evident during the global economic crisis, highlights the relevance of corporate monitoring and reporting non-financial matters to national economic policymakers.

Create incentive structures for CSR: Governments could attempt to incentivize CSR; after all, responsible companies suit public interests better. Policymakers could provide such incentives by (1) enhancing procurement standards, (2) adjusting financial regulations and even (3) offering tax breaks so as to provide greater opportunities for socially responsible businesses. First, government procurement has the potential to offer significant growth opportunities for many companies. If the public sector requires that the

Table 5: National Laws on CSR/Sustainability Reporting	
Sweden:	By 2009, state-owned companies will be required to produce annual sustainability reports in accordance with G3 guidelines
France:	Since 1977, companies with more than 300 employees have been required to file a "bilan social", reporting on 134 labor-related indicators. The 2001 New Economic Regulations Act further requires listed companies to disclose data on 40 social and environmental criteria in their annual reports.
UK:	Under the 2006 Companies Act, companies listed on the London Stock Exchange have to report on non-financial issues relevant to their business within annual reports.
Germany:	Since 2004, companies have been required to report within annual reports on key non-financial indicators that materially affect their performance
US:	There is little regulation on sustainability reporting, apart from rules regarding hazardous waste and toxic chemicals disclosure. The New York Stock Exchange requires listed companies to publish a code of business conduct and ethics.
Japan:	Under a 2004 law, certain companies and government agencies are required to produce annual reports on environmental impacts.
China:	The state-owned Assets Supervision and Administration Commission issued a directive in January 2008 encouraging state-owned companies to report on responsible business activities.
Malaysia:	From 2007, the government has required all listed companies to publish corporate social responsibility information in their annual reports.
Source: Ethical Corporation, "Non-financial reporting – Learning from Denmark: Companies and investment analysts are divided on the benefits of integrating non-financial information into annual reports," http://www.ethicalcorp.com/content.asp?ContentID=6385 (accessed March 22, 2009).	

companies it contracts with demonstrate a certain level of positive social and/or environmental impacts, there would be an enormous incentive (that would ultimately turn into a competitive advantage) for companies to more fully commit to CSR. Secondly, just as the U.S.' Community Reinvestment Act increased access to financial services for low- and moderate-income businesses, government could adjust financial regulatory environment so that socially responsible companies have access to the finance they need.[xvii] Since CSR is part of risk management, the lower risk presented by these companies could also be taken into account. (3) Lastly, small tax breaks for exceptionally successful CSR programs/companies could be considered. If companies develop innovative approaches that are replicated by others in their respective industries, it would be beneficial to the public sector to reward these pioneers.

Facilitate engagement of business with society: Policymakers should cooperate with business and other governments to increase transparency and reach an understanding of acceptable behavior in terms of ethics, accountability and transparency. EITI provides an excellent opportunity for governments to encourage private and public sector actors to engage in more responsible, sustainable behavior. U.S. Senator Richard Lugar recommends:

> …that the industrial G-8 countries do more to encourage their corporations and financial institutions to promote disclosure and accountability in oil exporting nations, and that the World Bank and other aid donors make anti-corruption and fiscal management programs a key part of their lending to oil producing nations.[xviii]

Reduce Regulatory Oversight: Governments should also aim to minimize their roles, so as to not create more complicated regulatory environments. When companies surpass minimum regulatory standards, it greatly reduces the need for government to ensure that basic levels of compliance have been met. The U.S. provides an example of a country that rewards companies for going above and beyond regulatory compliance. In the U.S.:

> [C]ompanies that demonstrably satisfy or go beyond regulatory compliance requirements are given more free reign by both national and local government entities. …[F]or example, federal and state agencies … recognize and reward companies that have taken proactive measures to reduce adverse environmental, health and safety impacts. In many cases, such companies are subject to fewer inspections and paperwork, and may be given preference or "fast-track" treatment when applying for operating permits, zoning variances or other forms of governmental permission. The U.S. Federal Sentencing Guidelines allow penalties and fines against corporations to be reduced or even eliminated if a company can show it has taken "good corporate citizenship" actions and has an effective ethics program in place.[xix]

Recommendations for Emerging Markets

Enable small and medium enterprises (SMEs): Policy frameworks should encourage and incentivize extractive companies to source their products and services through local SMEs, as this will develop local workforces and benefit host countries by helping to improve their business environments. Adding to the necessity to create jobs locally, many emerging economies will be experiencing a "youth bulge" in the near future, meaning a sharp rise in the number of individuals under 30 years-old. If the large youth populations remain unemployed, the countries could experience widespread social unrest.

Ensure proper integration of extractive companies with local populations: Social unrest and instability threatens when established local communities are forced (or even willingly) integrate into new cultural environments (e.g. those created by extractive industries entering a new area). The new circumstances imposed upon these populations can lead to a breaking up of families and communities, migration, ethnic and racial tensions, domestic abuse, alcohol abuse, rapid spread of sexually transmitted diseases etc… Indigenous populations, due to their long-standing traditions and ways of life, tend to suffer the most from these problems.[xx] Policymakers should evaluate all potential social impacts and put the proper social safety nets or mechanisms in place before granting extraction companies the right to operate.

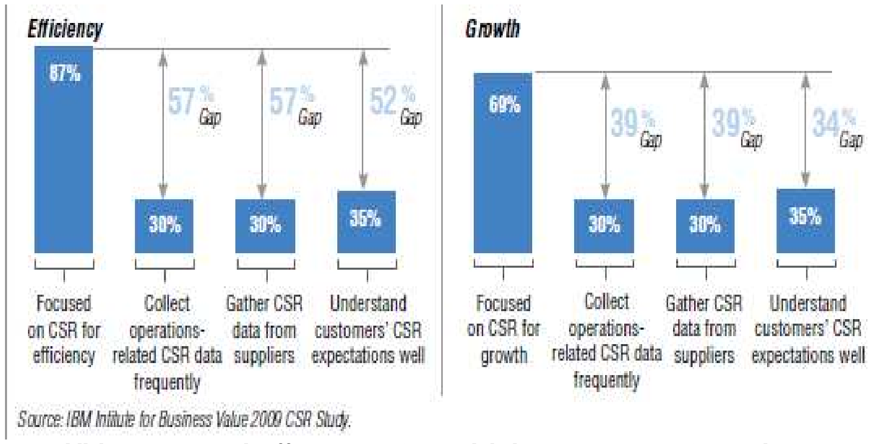
Engage in public-private partnerships: By partnering with companies and non-profits, governments can harness other organizations' institutional knowledge for the benefit of their own citizens. A good example of a public-private partnership is the South African Mining Charter, which is trying to increase the number of "previously disadvantaged people" (or rather, non-white South Africans) that own mining companies within the next eight years. Supporting the charter, the Mineral and Petroleum Resources Development Act encourages mining companies to facilitate black economic empowerment when the companies make significant human resource changes, such as change in corporate ownership or expansion of operations from acquiring new mineral rights.[xxi] Successful partnerships can increase government capacity, enhance its international reputation and improve its business environment, attracting new investors to the economy. Currently, the most effective way a resource-rich country can improve in all of these areas is by adhering to EITI principles, and, along these lines, partnering with companies and NGOs is essential if a government wants to receive international-recognition by EITI.

> ***"Our data confirms that the world has enough proved reserves of oil, natural gas and coal to meet the world's needs for decades to come. The challenges the world faces in growing supplies to meet future demand are not below ground, they are above ground. They are human, not geological."***
> ~ Tony Hayward, CEO of BP
>
> *Source:* BP, "BP Statistical Review of World Energy," (June 2009): 1, www.bp.com/liveassets/bp_internet /globalbp/globalbp_uk_english/reports_and_publications /statistical_energy_review_2008 /STAGING/local_assets/2009_downloads/statistical_review_of_world_energy_full_report_2009.pdf (accessed July 21, 2009).

EXTRACTIVE COMPANIES

As mentioned at the beginning of this report, engaging stakeholders and internalizing CSR practices are the two essential ingredients for effective CSR programs. Therefore, the following suggestions all fall under these two broad recommendations.

Figure 3: Optimization Gap



Source: Riddleberger, Eric and Jeffrey Hittner (IBM Global Business Services). "Leading a Sustainable Enterprise: Leveraging Insight and Information to Act." *IBM Institute for Business Value* (June 2009). http://www.karmayog.org/redirect/ strred.asp?docId=24973 (accessed July 15, 2009).

Engage stakeholders

Companies should have a solid understanding of all of their stakeholder's interests. They should (1) understand customer's expectations and concerns, (2) utilize social responsibility concepts to rally, attract retain and care employees, (3) increase the amount of local workers and SMEs they contract with, (4) engage meaningfully with local community stakeholders and (5) create partnerships with civil society and the public sector.

Understanding customer needs is important and not widely pursued, as IBM discovered in its 2009 CSR survey of about 250 global business leaders. The survey determined that almost two-thirds of the leaders did not have a good understanding of their customers' CSR expectations.[xxii] Lack of knowledge regarding customer expectations can have a significant impact on the bottom-line, particularly considering the increase in CSR-conscientious of consumers in recent years.

IBM Institute's 2009 Global CSR Survey: Effective CSR Requires International Standards and Private Sector Partnerships with NGOs

"Instead of going it alone, leading organizations are exchanging information with customers, industry groups and nongovernmental organizations (NGOs) to increase their access to a wider pool of knowledge and their ability to benchmark. They are joining with partners, suppliers and even competitors to exchange leading practices and ultimately build out common standards for sustainability. Standards are a requirement for effectively implementing a CSR strategy over the long term."

Source: Eric Riddleberger and Jeffrey Hittner (IBM Global Business Services), "Leading a Sustainable Enterprise: Leveraging Insight and Information to Act," *IBM Institute for Business Value* (June 2009): 2, www.karmayog.org /redirect/strred.asp?docId =24973(accessed July 15, 2009).

As far as employees are concerned, CSR can be useful in rallying employees around unified concepts and broader goals, attracting and retaining employees and caring for workers' health and safety. Also, for current employees as well as future, implementing CSR strategy presents a unique opportunity to unite companies around common objectives. Once again, IBM's survey results show that less than two-thirds of business leaders engage their employees in their CSR objectives. Considering the widespread acceptance of management studies proving that individuals' motivation increases when they can see how their tasks contribute to a larger goal,[xxiii] this represents an enormous lost opportunity to generate good-will and, potentially, increase productivity. Furthermore, IBM's survey cites a recent study which finds that 44% of young professionals would not consider working for an employer with that had a bad reputation.[xxiv] This statistic, along with the findings of a 2008 Net Impact study (see Appendix O), show that CSR plays a key role in attracting and retaining employees. In addition to the next generation of leaders, the employees and managers implementing CSR must understand and support what they are doing. As INSEAD's RESPONSE project results attest, the cognitive support of individual executives, managers and employees is crucial for implementing effective CSR, since the outcomes of CSR initiatives are determined by both individual behavior and organizational practice.[xxv]

As far as meaningfully engaging local external stakeholders, beyond the increasingly accepted approach of establishing open and honest dialogue with communities, extractive companies should hire local workers and contract with local SMEs for their supplies. As previously mentioned, hiring and contracting locally (see the case study *Petrobras Raises the Bar: Suppliers must qualify on key social responsibility indicators* for an example of the latter) facilitates development and helps companies maintain their social licenses to operate. Illustrating this point, ArevaDelfi, a member of the AREVA group,[19] only sources its products and services from the small- and medium-sized companies located in industrial areas where the AREVA group operates. Since it began operating in 1998, AREVADelfi has created 340 jobs, adding an economic value of $8.2 million euros to local economies.[xxvi]

Petrobras Raises the Bar: Suppliers must qualify on key social responsibility indicators

"Petrobras supply regulations are quite transparent for businesses to provide the high level required in the oil industry… Petrobras has defined some procedures for qualifying suppliers to improve management of the goods and service procurement process. A central model of the Petrobras Goods and Service Suppliers Register has been implemented to help integrate the activities for assessing the Company's suppliers and supplies… Through the supplier register, Petrobras encourages companies to complete the questions in Ethos indicators for social responsibility referring to human rights. ..From January 2008 completion of the questionnaire will be mandatory in application and renewal requests for registration.

Source: Petrobras, "Social and Environmental Report," (2007): 37, www2.petrobras.com.br/ResponsabilidadeSocial/ingles/pdf/BSA2007_ing.pdf (accessed July 22, 2009).

Beyond local hiring and contracting, companies need to ensure they establish open, frank and culturally-sensitive dialogue with communities from the beginning (as if they will be operating there for the long-term, whether or not that turns out to be the case). Cultural sensitivity is particularly important when companies are working in and around indigenous communities, as their social norms and, even, sacred beliefs can be

[19] The Areva group is a nuclear power generating, transmitter and distributor.

powerful determinants of how successful relations between the two parties need to proceed.

The last stakeholder engagement recommendation is that extractive companies partner with other private sector actors, NGOs, multilateral organizations and government. In addition to fostering beneficial, long-term relationships with communities, partnerships can allow companies to participate in programs, such as education and training, environmental protection, health awareness campaigns, etc..., without taking sole responsibility. While in the past large international NGOs may have been eager to partner with a company wanting to positively impact society or the environment, today, these NGOs (like multinationals) must safeguard their reputations by ensuring they do not partner with companies that could harm the value of their name. Although the increasing selectivity of potential NGO partners can present roadblocks for extractive companies (particularly given that the reputation of these industries is rarely positive in non-profit circles), the more selective partnership-building process creates a sense of competition among companies, which will inevitably increase the quality of their CSR/sustainability initiatives.[xxvii] An example of an innovative, multi-stakeholder partnership is the Clinton Giustra Sustainable Growth Initiative. The Clinton Foundation launched this initiative in 2007 along with 20 mining companies, numerous resource financiers and several (primarily Latin American) business partners. It works with governments, mining-related companies and development organizations to grow sustainable local economies in Latin America.[xxviii] Lastly, it is important to note that intra-industry cooperation is also important, not only to share information and best practices in tackling CSR/sustainability issues, but also to stimulate innovation, which the next set of recommendations will show plays an integral role in effective CSR.[xxix]

Internalize CSR

In order to fully integrate CSR into their management and operations, extractive companies need to innovate; improve technology and internal controls; monitor, audit and report; and align their values and policies with sustainable business practices.

Innovation of new technologies and processes by industry leaders is key for creating more efficient and cost effective ways for the industry to improve its social, environmental and economic impacts. If companies are not innovating new technologies and strategies, they should at least be actively seeking out new technologies, best practices and strategies than can improve their social and environmental performance. Specific to the extractive industries, research has proved that adapting better technologies can reduce underground mining accidents, which is a major social impact indicator.[xxx] In addition to underground accidents, the case study, *At BHP Billiton, cutting-edge technology warns of impending drowsiness,* illustrates how a mining company can reduce the risk of above-ground accidents by adopting a new technology.

As stated in the previous chapter, there is a strong correlation between the companies who do not monitor, audit and report on their impacts and those who do not perform well in sustainability evaluations. Companies must assess where their CSR strengths and weaknesses are if they aim to operate responsibly. Lack of this knowledge can lead companies to create CSR strategies that are not aligned with their core operational

At BHP Billiton, cutting- edge technology warns of impending drowsiness

"Drowsiness or fatigue contributes to a large number of our significant incidents. In response, the Australian developed Optalert™ technology that uses infrared technology to continuously monitor the wearer's eyelid and eye movement is being introduced at our Iron Ore Mt Whaleback mine, Western Australia. When impending drowsiness is detected the system delivers an audio alert. While not the solution to drowsiness or fatigue, Optalert™ provides another level of protection for our drivers."

Source: BHP Billiton, "Resourcing the Future, Sustainability Summary Report 2008,"(2008): 11, http://www.bhpbilliton.com /bbContentRepository/docs/bhpb_sustainability_2008.pdf (accessed July 14, 2009).

capabilities and that, ultimately, damage companies' financial bottom-lines.

Lastly, internalization requires that companies do just that: internalize. This requires a commitment from governing boards to align values and new policies in ways that will harness core business competencies for CSR implementation and from managers and employees to integrate their companies' socially responsible values into their daily activities. This alignment of values and policies with practices is key to reducing the gap between companies' CSR "walk" and "talk." Lastly, in addition to alignment, companies need to make sure they strike an important balance between their external stakeholder engagement and their internalization of CSR. The extractive companies that have adopted CSR recognize the importance of stakeholders; but, the growing importance of internalizing CSR changes has become much more evident in the face of the global economic crisis. Perhaps this recognition, along with a couple forthcoming standards, will provide the global guidelines needed to help companies in the extractive industries "walk the talk."

"The [European Commission] report [on CSR] found that the most innovative companies were also the most attuned to the world outside, which should not surprise us. It does not really matter what you call it: being alert to business threats and opportunities, wherever they come from, will not go out of fashion."

Source: Michael Skapiner, "Corporate responsibility is not quite dead," *Financial Times,* February 11, 2008, www.ft.com /cms/s/0/7990a3ec-d8a9-11dc-8b22-000779fd2ac.html?nclick_check=1 (accessed July 10, 2009).

POLICY DEVELOPMENTS: FORTHCOMING INTERNATIONAL STANDARDS

"At present, shared leading practices and benchmarking from industry coalitions are driving CSR decision making more so than internationally accepted standards. From these activities, however, long-lasting standards should emerge."[xxxi]

Multi-stakeholder groups, consisting of members from civil society organizations (CSOs), the private sector, the public sector and other interested communities, have been instrumental in the development of international voluntary standards and membership networks, which are working to create more globalized, systemic approaches to CSR issues. Two major forthcoming CSR developments are the ISO 260000 and the Social Life Cycle Assessment (SLCA).

ISO 26000

With an expected completion date of 2010, the ISO 26000 will be an international voluntary standard on social responsibility (SR).[20] This ISO standard could be revolutionary for the SR field because it offers a *comprehensive* way for companies to address all of their social responsibility issues. In order to be recognized as an ISO 26000 compliant company, TNCs and other organizations will be required to examine all internal and external aspects of their operations and strategies. Developers expect the upcoming SR-ISO to challenge large firms wanting an internationally-recognized "stamp of CSR approval" to adopt more effective and transparent CSR practices. By aligning operations and policies with publicly-stated social responsibility rhetoric, this SR guidance standard will further empower stakeholders to hold firms and organizations accountable.

Although intended for adoption at the organizational level, the ISO 26000 could provide guidance for policymakers. Countries, especially those lacking a strong business operating environment, may want or need to create policy frameworks in order to incentivize adoption of SR.[xxxii] SR-related public policy could resolve local tensions and discrepancies in the regulatory environment that prevent firms from implementing SR.

Despite concerns about ensuring the effectiveness of CSR legislation, many CSR experts believe that the ISO will help give large organizations the necessary guidance for

[20] The ISO 26000 deals with SR, as opposed to CSR, because it also aims to be available to non-corporate actors (such as NGOs).

defining SR internally, as well as externally. Also, researchers and industry experts have compared the ISO 26000 with the ISO 9000 series (the quality management standards) and the ISO 14000 series (environmental management systems), both of which have been used to create national-level policies.

Social Life Cycle Assessment (SLCA)

Another global development is the SLCA, which will be a life cycle assessment of all *social* impacts (as opposed to environmental impacts) that a product, resource or service has on human beings, from cradle-to-grave. While the SLCA is not currently proposed to be a part of the ISO 26000, the traditional environmental LCA (or rather, the soon-to-be-called E-LCA) is part of the environmental management system ISO (14000 series).

To create the SLCA, numerous contributors have collected thousands of social indicators from a wide assortment of documents and organizations, including the OECD's *Guidelines for Multinational Enterprises*, the GRI, the SA 86000, the ILO's Core Labor Standards, among others.[xxxiii] While some extractive companies have developed their own internal monitoring processes for identifying social risks and impacts, the SLCA could provide the international standardization needed to systematically assess and quantify social impacts and, thus, move CSR forwards as an empirically-sound business practice.

[i] United Nations Industrial Development Organization and the John F. Kennedy School of Government at Harvard University, *Building Linkages for Competitive and Responsible Entrepreneurship: Innovative partnerships to foster small enterprise, promote economic growth and reduce poverty in developing counties* (2004): 109, http://www.unido.org/fileadmin/user_media/Services/PSD/CSR/Building_Linkages_for_Competitive_and_Responsible_Entrepreneurship.pdf (July 10, 2009).
[ii] Saleem Ali, *Earth Matters: Indigenous Peoples, the Extractive Industries and Corporate Social Responsibility*, 246.
[iii] Warhurst, 13.
[iv] United Nations Global Compact, "Overview of the UN Global Compact," www.unglobalcompact.org/AbouttheGC/ (accessed July 27, 2009).
[v] Ibid.
[vi] (1) Robert W. Nason (MichiganState University), "Structuring the Global Marketplace: The Impact of the United Nations Global Compact," *Journal of Macromarketing* Vol. 28 No.4 (2008): 418-425. (2) *Antonio Vives (Principle Associate at Cumpetere and consulting professor at* ***Stanford University),*** **"**Global Compact: This is it?"(October 29, 2008) http://globalcompactcritics .blogspot.com/2008/10/global-compact-should-go-for-quality.html **(**accessed July 21, 2009).
[vii] Phone interview with the director of CSR at Hess, June 22, 2009.
[viii] International Finance Corporation, "Performance Standards," http://www.ifc.org/ifcext/sustainability.nsf/Content/PerformanceStandards (accessed July 28, 2009).
[ix] International Finance Corporation, "Case Studies: Ahafo Gold Mine, Ghana - Newmont's Return to Africa Continues a Long-Term Relationship," www.ifc.org/ifcext/coc.nsf/content /2B3752A462EFADDF8525758B0067A1E0 #Sector=Mining&Tab=2&Spotlight=3 (accessed July 28, 2009).
[x] (1) Bretton Woods Project,"IFC-funded goldmine shut down by local protest," Update 52, (November 22,2004) http://www.brettonwoodsproject.org/art-83034 (accessed July 27, 2009). (2) Greg Griffin, "Newmont Mining begins to close Peru site over protests," *Denver Post* (August 29, 2006) http://www.denverpost.com/business/ci_4253289 (accessed November11,2008).
[xi]Bretton Woods Project, "The IFC at fifty: All that glitters is too much gold," Update 52 (September 11, 2006) http://www.brettonwoodsproject.org/art-542312 (accessed July 27, 2009).
[xii] Anonymous phone nterview with a director of CSR at a U.S. oil and gas company, June 22, 2009.
[xiii] Email correspondence with Piers Wendlandt (former Mining Engineer, Thunder Basin Coal Co., Arch Coal Inc.), Mining Engineer,- Directorate of technical services - Ventilation Division, Mine Safety and Health Administration (MSHA), US DOL, August 5, 2009.
[xiv] Alison Paul DeSchryver (NDI) and John Johnson (NDI), "EITI Guide for Legislators: How to support and strengthen resource transparency," *National Democratic Institute (NDI), Revenue Watch Institute and EITI International Secretariat* (February 2009), http://www.revenuewatch.org/news/publications/eiti-mp-guide.php (accessed July 31, 2009).
[xv] Petroleum Equipment Suppliers Association, "Extractive Industries Transparency Initiative," *PESA* Vol. LVIII, No. 3, (August/September 2003) http://www.pesa.org/newsletter/PESAnewsAUGSEPT03.pdf (accessed July 30, 2009).
[xvi] V. Weitzner, (2002), *Cutting-edge Policies on Indigenous People and Mining: Key Lessons for the World Summit and Beyond* (Ottawa: North-South Institute). As cited in: *Earth Matters: Indigenous Peoples, the Extractive Industries and Corporate Social Responsibility*, 247.
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Conclusion

The word "responsibility" can be off-putting for many people and organizations. In today's instant communication, innovation-driven, competitive society, the last thing that most people and organizations want is greater responsibility. So, perhaps, a re-naming of corporate social responsibility is in order, as many sustainability proponents have suggested. Or, perhaps more appropriately, a re-education about what "responsibility" means is needed. While "responsibility" can have the connotation of burden (or *de facto* burden, when compliant-oriented corporations cannot see the benefits of CSR) responsibility, in fact, leads to freedom.

When extractive companies take responsibility for and report on the impacts that their activities have on society, they are freeing themselves from combating stakeholders' increasing expectations and, thus, are reducing the risks of becoming less reputable and losing their social licenses to operate. When industry leaders create innovative partnerships, strategies and technologies, they are freeing themselves from the costs of misaligned corporate values and policies with core business capabilities. Furthermore, industry leaders have the opportunity to free themselves from government-led compliance initiatives if their innovations are strong enough to drive government regulations.

Despite the freedoms that companies can obtain by adopting CSR, an abundance of cynics and skeptics doubt that CSR is a lasting business practice, believing it could be a passing fad. Although CSR is a relatively new business practice lacking both long-standing precedence and standardized methods for implementation, the enormous challenges facing society at large and the increasing amount of trust that society places in business to solve these problems makes it difficult to doubt the importance of CSR.

Alternatively, other cynics charge that companies are not doing enough to address society's problems. The report for this research indicates that many extractive companies – primarily, the industry leaders, if not others as well - are working to improve their positive and reduce their negative impacts; but, any positive results of on-going efforts are yet to be seen, given the nascent acceptance of CSR as a practice that makes good business sense. The extraction industry has existed for centuries; but, new operating environments coupled with stakeholders' changing expectations are recent phenomena. Although companies are adjusting their strategies and policies to meet these changes, internal changes for large multinationals occur slowly to ensure they incorporate all stakeholders' interests as best as possible. For example, one of the industry's "most responsible" mining companies, BHP Billiton, just instituted a company-wide, sustainable "Closure Standard" for mining sites only two years ago. This new standard, along with countless other new practices, policies and innovations in the extractives industry, will take years before tangible results are evident.

Arguably, in no other arena can extractives affect the most positive change than in resource-rich developing countries. Policymakers and civil society organizations, recognizing the impact that government royalties paid by extractive companies have on development, have increased demands for transparency and accountability from both extractive companies and the countries in which they operate. The Extractive Industries Transparency Initiative is leading the way in combating the harmful effects of public sector corruption and mismanagement and is one of many multi-stakeholder groups working towards mitigating harmful social, economic and environmental impacts of extractive industries.

As USAID's 2004 *Enterprise Growth Initiatives: Strategic Directions and Options* asserts, pre-existing business practices can be the most difficult to change. CSR, as a business practice that requires changes in corporate culture, values and policies, will take time and perseverance. As stated by Saleem Ali at the conclusion of *Earth Matters*: "[w]hile the manifestation of CSR practices has multiple interpretations… a shift in corporate culture is clearly occurring. Whether or not this shift has yet brought palpable benefits… is widely contested."[i] The changes in corporate cultures will benefit both current and future generations, and, given the ever-growing developments in the field, visionaries, innovators and leaders will be key to ensuring global adoption of CSR.

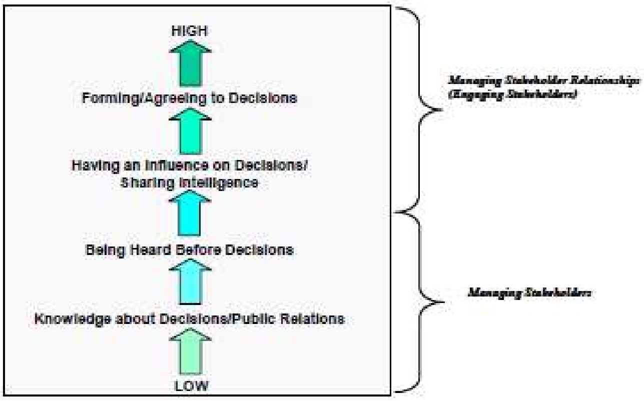
Report Highlights

- The growth and development of effective CSR in the extractive industries is determined by:
    - Changing stakeholder expectations
    - Industry leadership
    - Innovation and technology
    - Globalization and its highly integrated networks
    - Supportive and enabling policy frameworks
- The expansion of extractive activities into more remote areas, spurred by demand for natural resources and scarcity of large resource deposits, has made the extractive industries inevitable players in international development.
- Sustainability ratings differ substantially due to the relative importance of certain sustainability issues over others and can only offer informed suggestions on industry leaders in CSR/sustainability.
- The gap between companies' sustainability practices and their credibility with stakeholders should be explored further.
- As key players in international development, CSR has become an imperative for companies to maintain their social licenses to operate.
- Policies are important supporters and facilitators of CSR adoption, and existing and forthcoming international standards are providing much needed international standardization.
- Public and private sectors should collaborate more to address sustainability issues efficiently and effectively.
- Extractive industry leaders who engage stakeholders and internalize CSR practices will be integral to providing the necessary innovations, technologies and best practices that will close the gap between companies that "talk the talk" and those that "walk the walk."

[i] Saleem Ali, *Earth Matters: Indigenous Peoples, the Extractive Industries and Corporate Social Responsibility*, 245.

Appendices

Appendix A: Stakeholder Engagement Model



Source: Beth Kytle and John Gerard Ruggie. "Corporate Social Responsibility as Risk Management: A Model for Multinationals, Working Paper No. 10," *Corporate Social Responsibility Initiative, John F. Kennedy School of Government, Harvard University,* (Cambridge, MA, 2005): 10, http://www.hks.harvard.edu/m-rcbg/CSRI/publications/workingpaper_10_kytle_ruggie.pdf (accessed November 18, 2009)

Appendix B: DJSI Criteria and Weightings

Corporate Sustainability Assessment Criteria

Dimension	Criteria	Weighting (%)
Economic	Codes of Conduct / Compliance / Corruption&Bribery	6.0
	Corporate Governance	6.0
	Risk & Crisis Management	6.0
	Industry Specific Criteria	Depends on Industry
Environment	Environmental Reporting*	3.0
	Industry Specific Criteria	Depends on Industry
Social	Corporate Citizenship/ Philanthropy	3.0
	Labor Practice Indicators	5.0
	Human Capital Development	5.5
	Social Reporting*	3.0
	Talent Attraction & Retention	5.5
	Industry Specific Criteria	Depends on Industry

*Criteria assessed based on publicly available information only

Source: Dow Jones Sustainability Index, "Criteria and weightings," http://www.sustainability-index.com/07_htmle/assessment/criteria.html (accessed July 26, 2009).

Appendix C: Four Mining Companies' Energy Consumption and Goals

WATER CONSUMPTION ACROSS OPERATIONS		
Company	*Water Use in megaliters*	*Stated Goal for Water Use Reduction Achieved?*
ANGLO AMERICAN	629,000 (2005)	No: 6% increase in use since 2004
bhpbilliton	1,702,500 (2005-6)	Not reported
Companhia Vale do Rio Doce	140,000 (in Brazil only, 2006)	No stated goal; note that 82% of water was recirculated
RioTinto	Not Reported	Yes: Freshwater withdrawal efficiency decreased in 2005-6
ENERGY USE ACROSS OPERATIONS		
Company	*Energy Use in petajoules*	*Stated Goal for Energy Use Reduction Achieved?*
ANGLO AMERICAN	298 (2005)	No, but increase attributed to better accounting
bhpbilliton	309 (2005-6)	Uses energy intensity index to track energy consumption performance. In 2005-6, energy intensity index increased by 3%, slightly above the baseline
Companhia Vale do Rio Doce	Not reported	Not reported
RioTinto	258 (2006)	Not reported

(1)Anglo American (2) BHP Billiton (3) Compania Vale del Rio Doce (4) Rio Tinto

Source: Clarissa Lins and Elizabeth Horowitz, "Sustainability in the Mining Sector," *Brazilian Foundation for Sustainable Development* (July 2007): 11, http://www.fbds.org.br/IMG /pdf/doc-295.pdf (accessed July 10, 2009).

APPENDIX D:

The following 13 charts are taken from the Brazilian Foundation for Sustainable Development's 2007 report, *Sustainability in the Mining Sector*. The charts below attempt to rate the performance of major mining companies on key sustainability issues. Three charts look at environmental impacts; seven of the charts look at social impacts; and three explore economic/governance impacts. The authors selected these key issues by conducting a literature review on mining information and then by looking at the most recent corporate, publicly available information. For Anglo American, BHP Billiton, CVRD and Rio Tinto, reports were from 2006; Inco's report was from 2005. The 14th and final table "tallies the score" for each of the companies. **Researchers' note: the corporate reports used in the study were not independently verified or audited.*

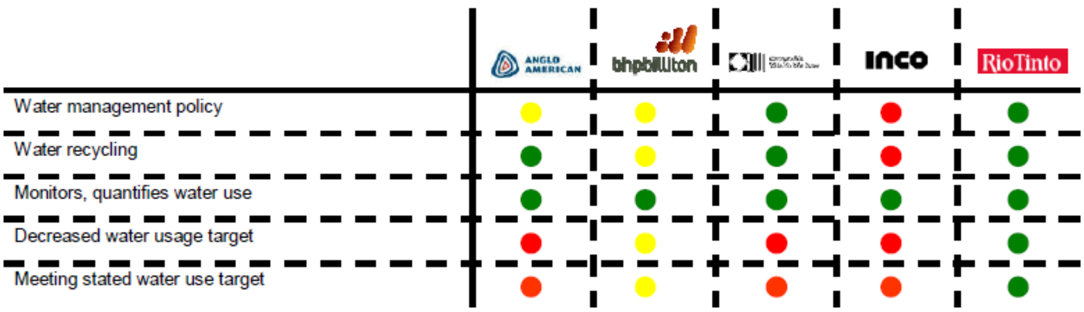
Consistently satisfactory performance

Partially satisfactory performance

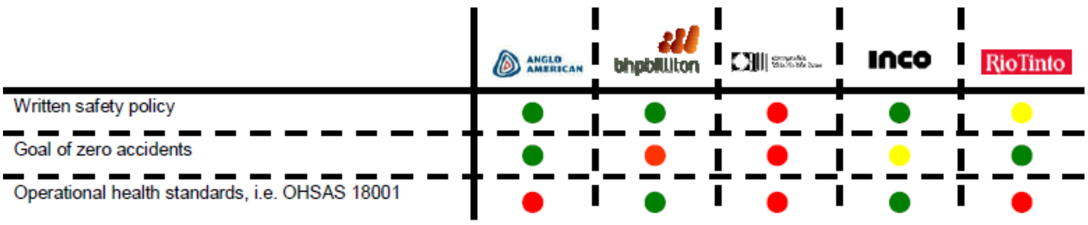
Unsatisfactory performance OR insufficient public information to fully evaluate

Does not apply

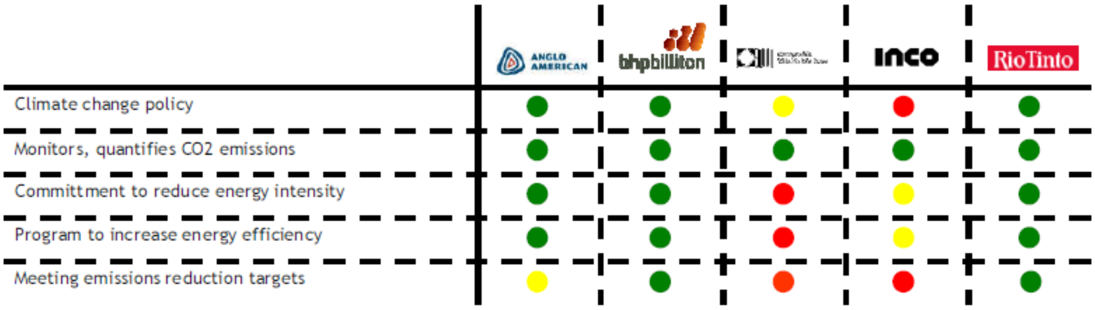
(1) Anglo American (2) BHP Billiton (3) Compania Vale del Rio Doce (4) INCO (5) Rio Tinto
Source: Clarissa Lins and Elizabeth Horowitz, "Sustainability in the Mining Sector," *Brazilian Foundation for Sustainable Development* (July 2007): 31, http://www.fbds.org.br/IMG/pdf/doc-295.pdf (accessed July 10, 2009).



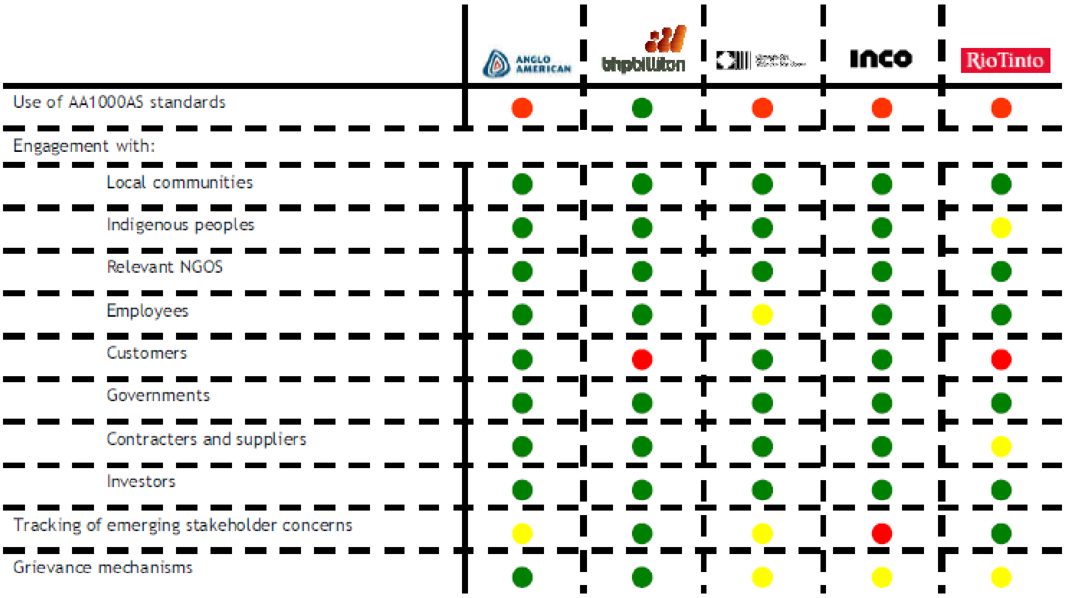
Lins and Horowitz, 31.



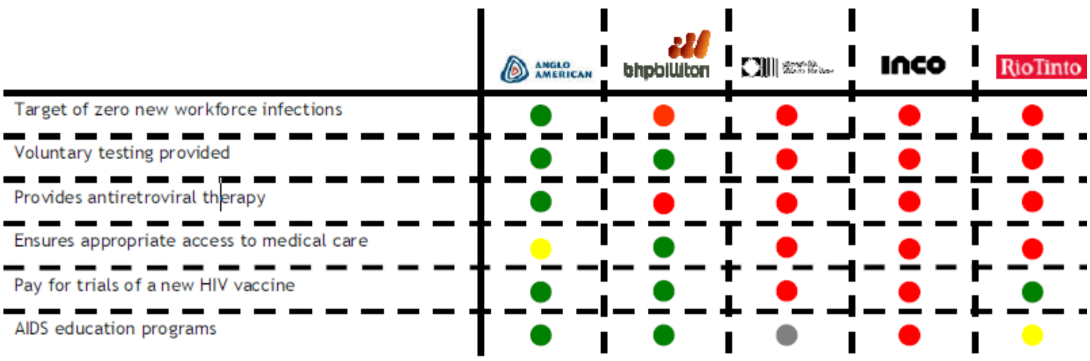
Lins and Horowitz, 33.



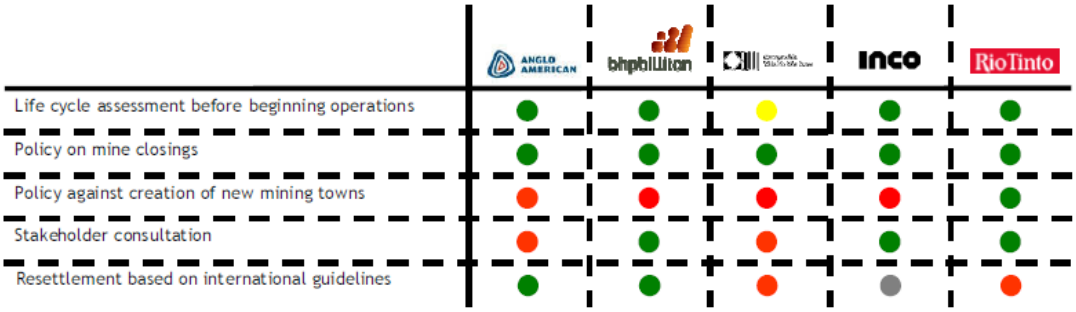
Lins and Horowitz, 29.



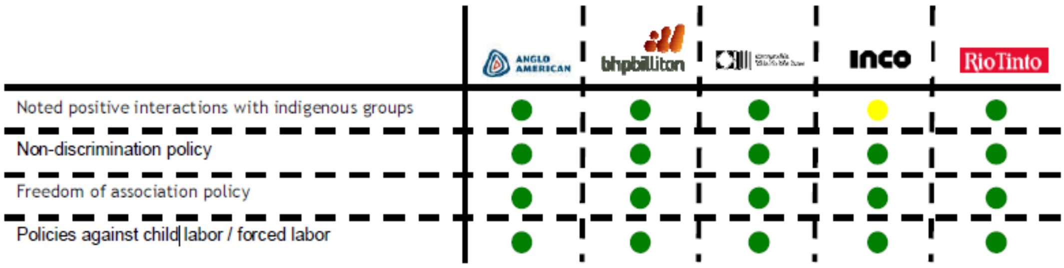
Lins and Horowitz, 35.



Lins and Horowitz, 37.

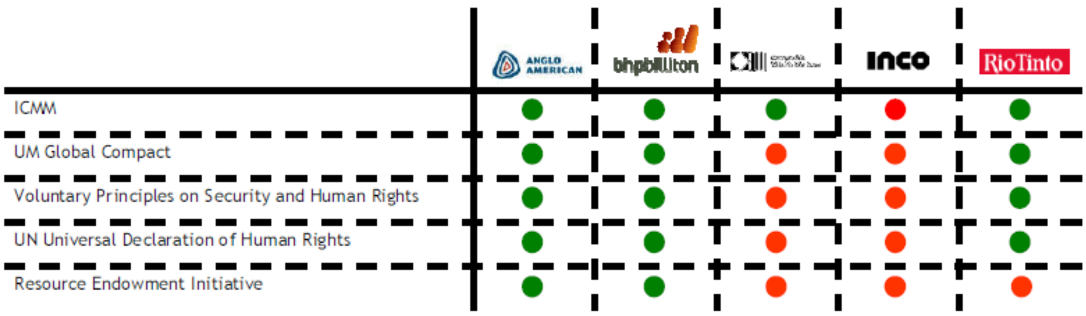


Lins and Horowitz, 39.

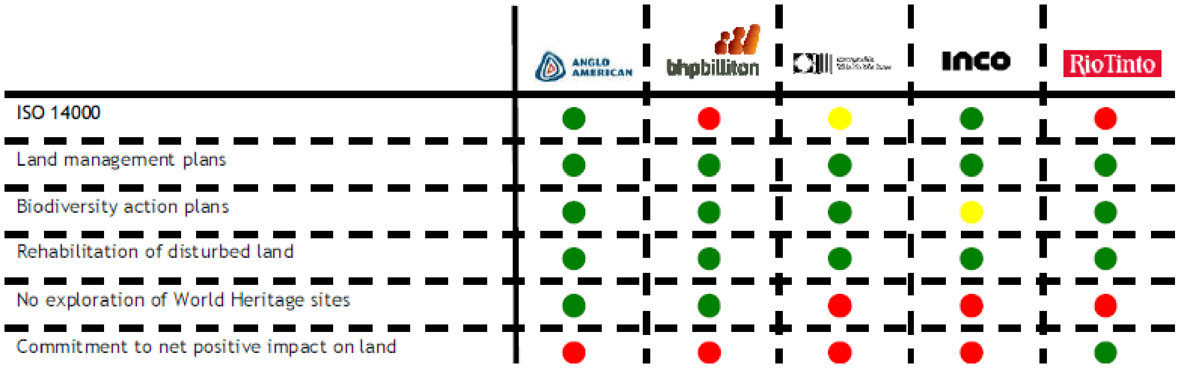


Lins and Horowitz, 40.

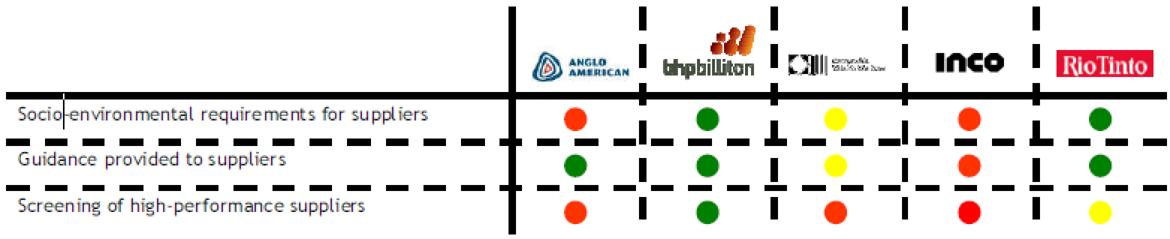
Lins and Horowitz, 42.



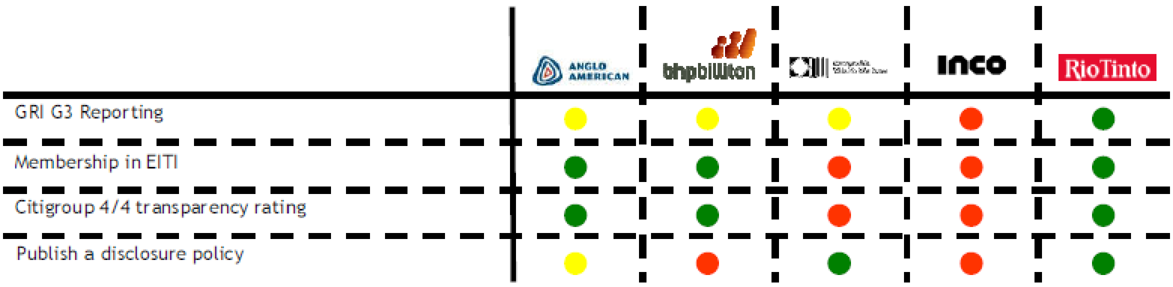
Lins and Horowitz, 50.



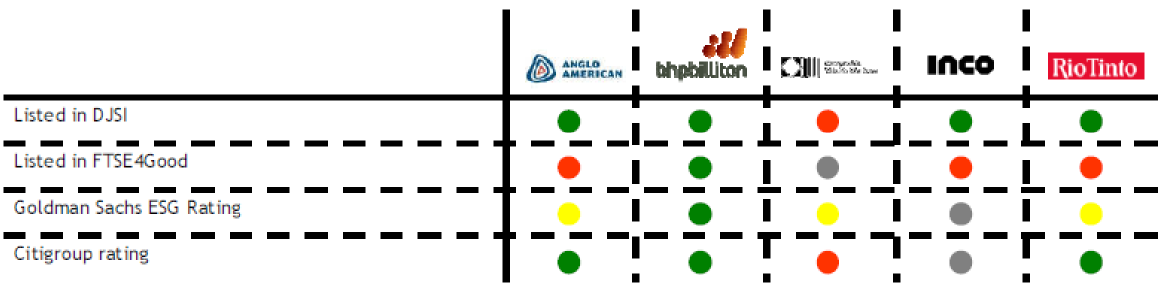
Lins and Horowitz, 27.



Lins and Horowitz, 44.



Lins and Horowitz, 46.



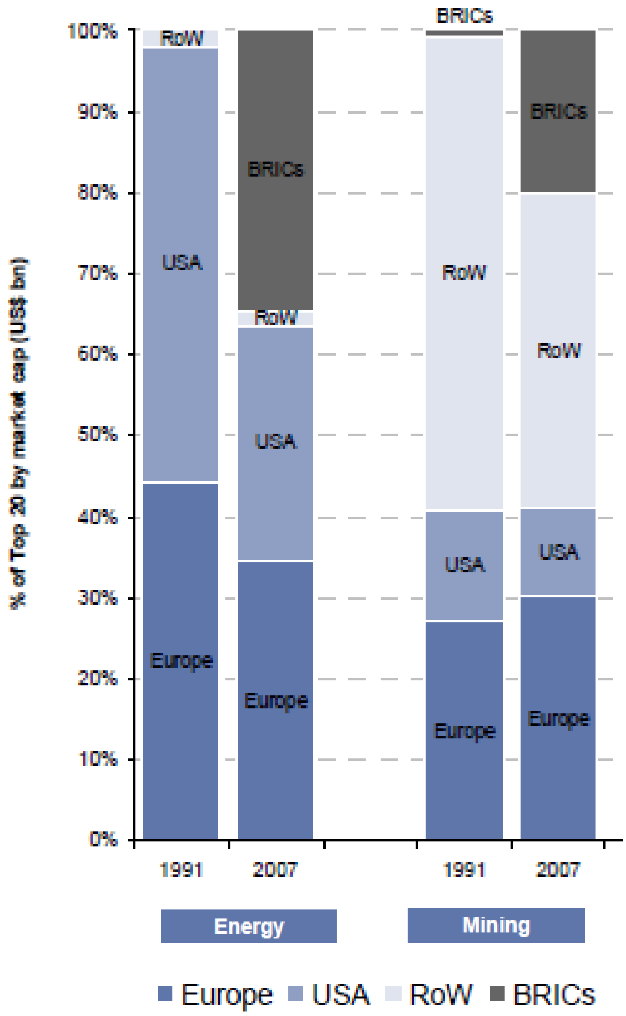
Lins and Horowitz, 48.

Brazilian Foundation for Sustainable Development's Findings in "Sustainability in the Mining Sector"

		Anglo American	bhpbilliton	Companhia Vale do Rio Doce	inco	RioTinto	*NUMBER OF INDICATORS*
Environmental							
5.1.1	Environmental Management	5	4	3	3	4	*6*
5.1.2	Climate Change	4	5	1	1	5	*5*
5.1.3	Water Management	2	1	3	1	5	*5*
Social							
5.2.1	Worker and Community Safety	2	2	0	2	1	*3*
5.2.2	Stakeholder Engagement	9	10	7	8	6	*11*
5.2.3	HIV/AIDS Reduction	5	4	0	0	1	*6*
5.2.4	Policies for Mine Life Cycle	3	4	1	3	4	*5*
5.2.5	Human Rights	4	4	4	3	4	*4*
5.2.6	Community Development	4	1	4	3	5	*6*
5.2.7	Supply Chain Management	1	3	0	0	2	*3*
Economic/Governance							
5.3.1	Transparency and Accountability	2	2	1	0	4	*4*
5.3.2	External Performance Indicators	2	4	0	1	2	*4*
5.3.3	Sector-specific / Global Initiatives	5	5	1	0	4	*5*
Number of Satisfactory Indicators		**48**/67	**49**/67	**25**/65*	**25**/64*	**47**/67	***67***

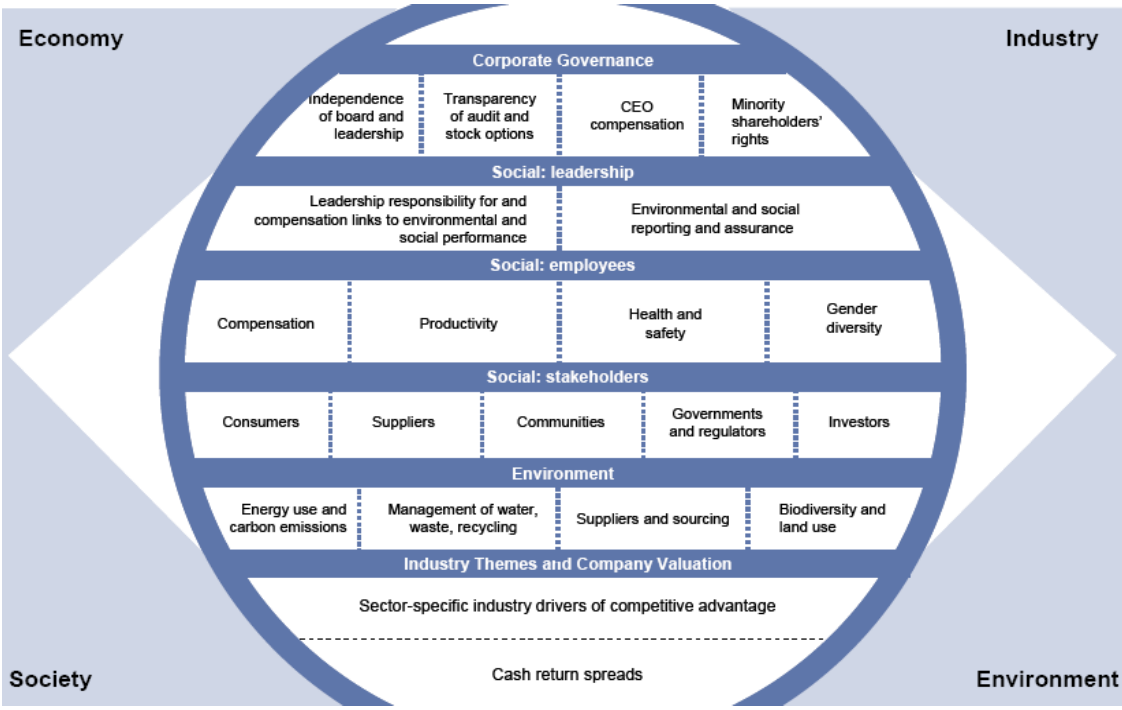
Lins and Horowitz, 51. *For each sub-category (those under Environmental, Social or Economic /Governance), the company received a score based on the number of "satisfactory" (green) indicators for it received. Then, the total number of "satisfactory" indicators was tallied for a final company score. Anglo American, BHP Billiton and Rio Tinto were the clear leaders. CVRD and Inco tailed considerably, satisfactorily responding to fewer than half of the indicators analyzed.*

Appendix E: Market capitalization in 1990 and 2007 for the Top 20 companies in energy and mining



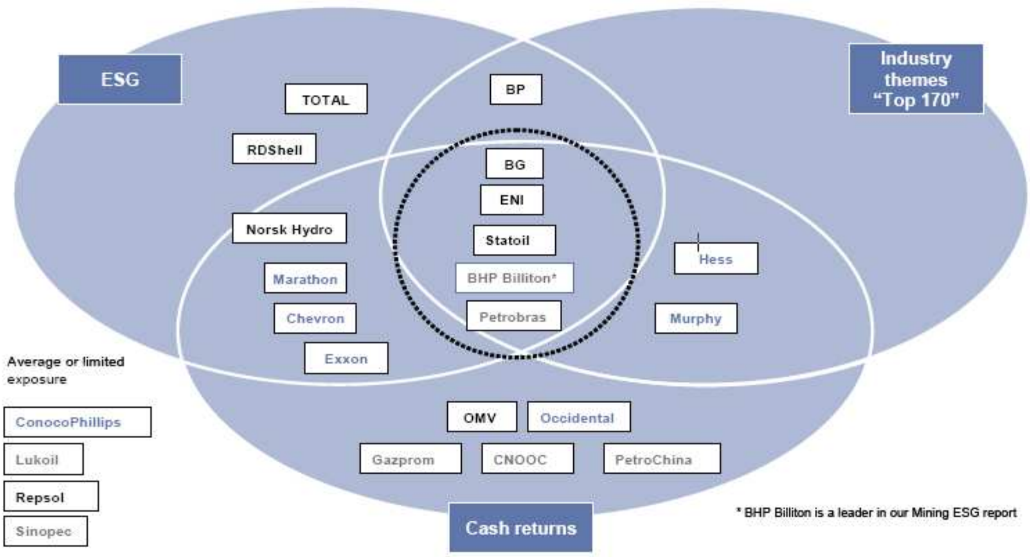
Source: Goldman Sachs Research, Datastream. "Our GS SUSTAIN methodology incorporates ESG into picking long-run winners and looking for emergent industries," (June 22, 2007): 28, www.unglobalcompact.org /docs/summit2007/gs_esg_embargoed_until030707pdf.pdf (accessed August 3, 2009).

Appendix F: GS ESG Framework: Measuring relative management quality



Source: *Goldman Sachs Research*. Our GS SUSTAIN methodology incorporates ESG into picking long-run winners and looking for emergent industries" (June 22, 2007): 39, http://www.unglobalcompact.org /docs/summit2007/gs_esg_embargoed_until030707pdf.pdf (accessed August 3, 2009).

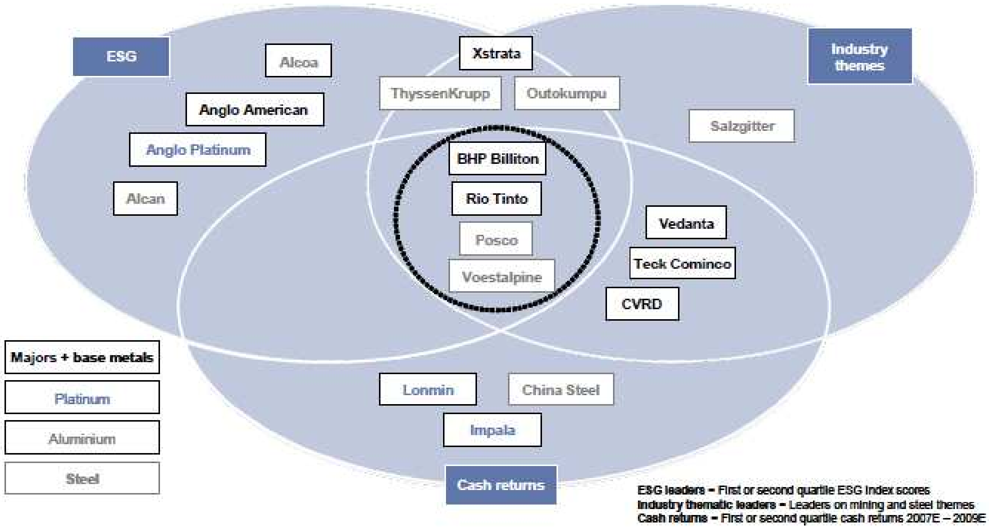
Appendix G: GS SUSTAIN Energy Leaders



Sustainable investing company categorisation									
Leaders		Average					Laggards		
Europe	EM	Europe		North America		EM	Europe	North America	EM
BG	Petrobras	BP	RDShell	Chevron	ConocoPhillips	CNOOC	Repsol	Occidental	Lukoil
ENI		OMV	TOTAL	ExxonMobil	Hess	Gazprom			Sinopec
Statoil				Marathon	Murphy	PetroChina			

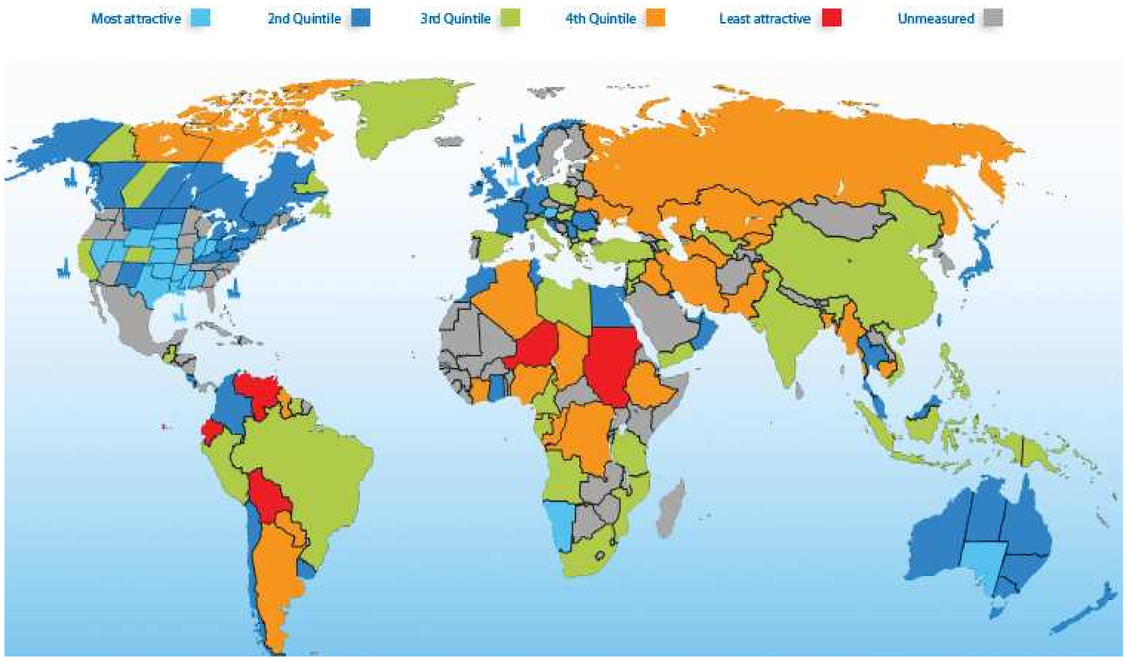
Source: Goldman Sachs Research. Our GS SUSTAIN methodology incorporates ESG into picking long-run winners and looking for emergent industries" (June 22, 2007): 71, www.unglobalcompact.org/docs/summit2007/gs_esg_embargoed_until030707pdf.pdf (accessed August 3, 2009).

Appendix H : GS Sustain Mining and Steel Leaders



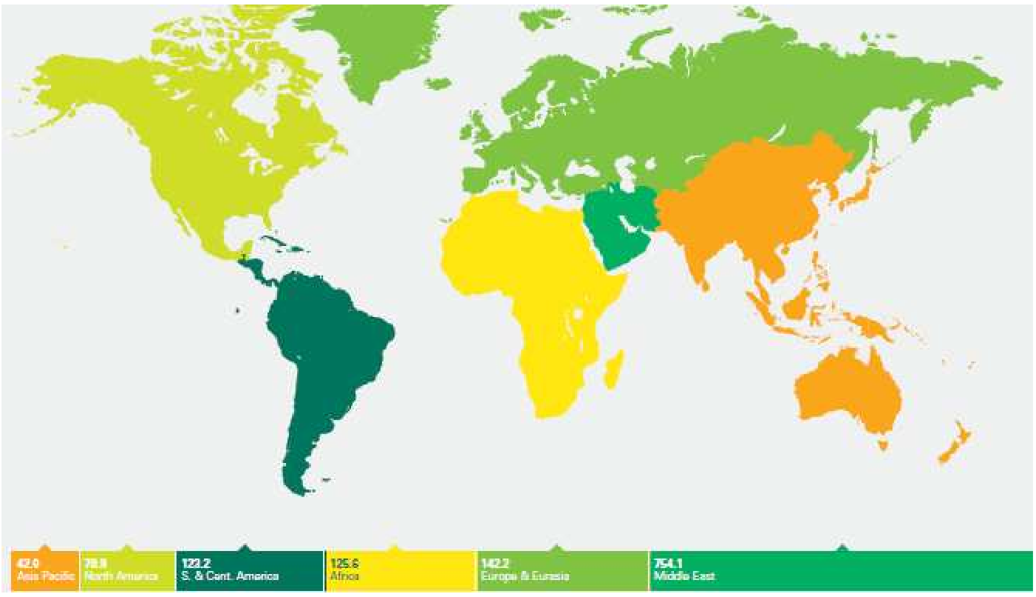
Source: Goldman Sachs Research, "Our GS SUSTAIN methodology incorporates ESG into picking long-run winners and looking for emergent industries," (June 22, 2007): 77, www.unglobalcompact.org /docs/summit2007/gs_esg_embargoed_until030707pdf.pdf (accessed August 3, 2009).

Appendix I: Global Investment Climate for Petroleum Upstream Development



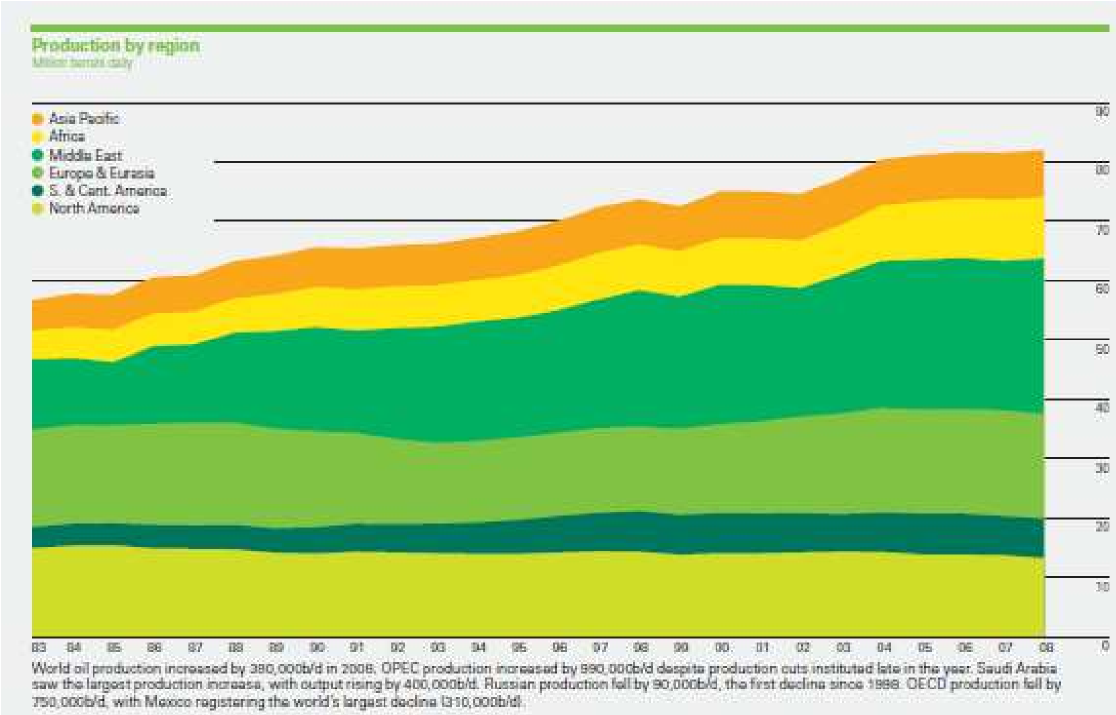
Source: Fraser Institute, "Global Petroleum Survey," (June 24, 2009), www.fraserinstitute.org/Commerce.Web /product_files/GlobalPetroleumSurvey2009_MAP.pdf (accessed July 15, 2009).

Appendix J: Proved Reserves at end of 2008 (in thousand million barrels)



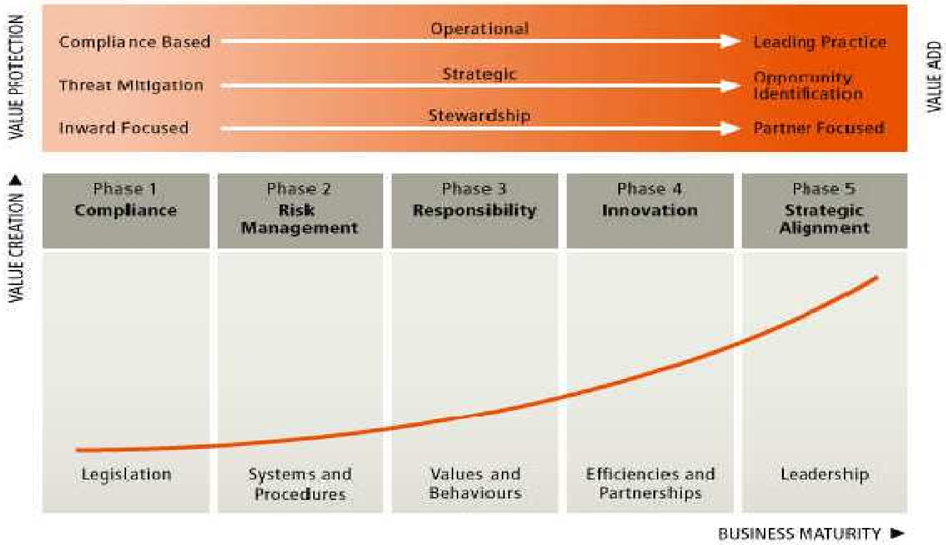
Source: BP, “BP Statistical Review of World Energy,” (June 2009): 7, www.bp.com/liveassets /bp_internet/globalbp /globalbp_uk_english/reports_and_publications/statistical_energy_review _2008/STAGING/local_assets/2009_downloads/statistical_review_of_world_energy_full_report _2009.pdf (accessed July 21, 2009).

Appendix K: Production by Region (daily million barrels)



BP, “BP Statistical Review of World Energy,” (June 2009): 10, www.bp.com/liveassets/bp_internet /globalbp/globalbp_uk_english/reports_and_publications/statistical_energy_review_2008/STAGING/local_assets/2009_downloads/statistical_review_of_world_energy_full_report_2009.pdf (accessed July 21, 2009).

Appendix L: BHP Billiton's Strategic Development Roadmap



Source: Source: BHP Billiton, "BHP Billiton Full Sustainability Report," (2007): 59, http://sustainability .bhpbilliton.com/2006/documents/BHPBillitonSustainabilityReport2006.pdf (accessed July 14, 2009).

Appendix M: Path Towards CSR Industry Standardization?

Source: Sol Milius (Senior Manager of Global Training Services at STR Responsible Sourcing), “Managing Human Rights in the Supply Chain: Are we getting anywhere?” (Presentation at the Global Strategies Management Institute’s CSR Performance Summit on May 12, 2009).

Appendix N: EITI's Supporters and Candidates

Extractive Industries Transparency Initiative (EITI) Company Member			
Alcoa *	DeBeers	Lonmin *	Rio Tinto *
Anglo American *	Eni	Marathon	Santos
AngloGold Ashanti *	ExxonMobil	Mitsubishi Materials *	Shell
Arcelor Mittal	Freeport-McMoRan Copper & Gold *	Newmont *	StatoilHydro
Areva	GDF SUEZ	Nippon Mining & Metals *	Sumitomo Metal Mining *
Barrick Gold *	Gold Fields *	Oxus Gold	Talisman Energy
BG Group	Hess Corporation	OZ Minerals *	Teck Cominco *
BHP Billiton *	Lihir Gold *	Pemex	TOTAL
BP	Norsk Hydro	Petrobras	Vale *
Chevron Corporation	Katanga Mining Limited	Repsol YPF	Woodside
ConocoPhilips			Xstrata

Note: * designates a company that is "supporting" due to its International Council on Mines and Metals membership *Source:* Extractive Industries Transparency Initiative, "Supporting Companies," http://eitransparency.org/supporters/companies (accessed July 28, 2009).

EITIs 16 Supporting Countries			
Australia	Finland	The Netherlands	Sweden
Belgium	France	Norway	Switzerland
Canada	Italy	Qatar	The United Kingdom
Germany	Japan	Spain	United States of America

Source: Extractive Industries Transparency Initiative, "Supporting Countries," http://eitransparency.org/supporters/countries (accessed July 28, 2009).

EITI's Candidate Countries		
Albania	Guinea	Nigeria
Burkina Faso	Kazakhstan	Norway
Cameroon	Kyrgyz Republic	Peru
Central African Republic	Liberia	Republic of the Congo
Côte d´Ivoire	Madagascar	São Tomé e Príncipe
Democratic Republic of Congo	Mauritania	Sierra Leone
Equatorial Guinea	Mongolia	Tanzania
Gabon	Mozambique	Timor-Leste
Ghana	Niger	Yemen
		Zambia

Source: Extractive Industries Transparency Initiative, "Candidate Countries," http://eitransparency.org/countries/candidate (accessed July 28, 2009).

Appendix O: Net Impact, November 2008 MBA Student Survey	
In your opinion, to what extent have the following factors had an [extreme or high] impact on the recent global financial crisis?	
Irresponsible lending practices in the mortgage industry	94%
A focus on short-term as opposed to long-term returns	90%
Poor risk management practices by financial institutions	80%
A corporate culture characterized by greed and self indulgence	73%
Lack of appropriate regulatory/ legal checks on corporations	64%
Corporate leaders who disregard ethics and principles	53%
What factors will be the most important in your job selection? *Respondents selected their top 3 out of 10 possible choices.* *These were the most selected options.*	
Work/life balance	56%
Challenging & diverse job responsibilities	51%
Compensation	49%
Potential to contribute to society	32%
The for-profit sector should play a role in addressing social and environmental issues	
2008: 88% agree	2006: 86% agree
Corporate social responsibility makes good business sense because it leads to financial profits	
2008: 77% agree	2006: 60% agree
Source: Net Impact and The Aspen Institute's Center for Business Education, "New Leaders, New Perspectives: A Survey of MBA Student Opinions on the Relationship between Business and Social/Environmental Issues," March 2009.	

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Vita

Mary Beth Snodgrass was born on April 29, 1981 in Kansas City, Missouri. She grew up in the suburbs of Houston, Texas and graduated high school from St. Agnes Academy in 1999. She received a B.A. in history and Spanish, with a concentration in Latin American studies, from the College of the Holy Cross in Worcester, MA in 2003. During her junior year, she studied abroad at the University of Seville in Spain. In the four years between undergraduate and graduate school, Ms. Snodgrass held various positions at for-profit and non-profit organizations. Her work experience includes interning at the Foreign Policy Association (New York, NY), the Institute for International Education (San Francisco, CA) and the United Nations Industrial Development Organization (UNIDO, Vienna, Austria); serving as an AmeriCorps VISTA volunteer (San Diego, CA) and working as a business development manager for a car-share company (San Francisco, CA). While pursuing her master's in global policy studies at the LBJ School of Public Affairs, she consulted on social responsibility at the International Atomic Energy Agency (IAEA, Vienna, Austria). Awards that have supported her research on CSR include the LBJ School's Spinner Workforce Development Fellowship and Global Strategic Management Institute's student scholarship to the 2009 CSR Performance Summit.

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